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SAVING BRITAIN'S
WILDLIFE
8-PAGE SPECIAL REPORT

Britain threatens trade war

Charles Arthur
Science Editor
and Katherine Butler

In a move signalling a new beef trade war, the Government yesterday threatened a unilateral ban on £250m of European beef imports unless they adopt the UK's measures to protect consumers against bovine spongiform encephalopathy.

The defiant message, 15 months after the UK's £500m beef export industry was choked off by import bans across Europe and the rest of the world, is a preliminary shot before a meeting of the European Union's agriculture ministers on 22 July. The agriculture minister, Jack Cunningham, said he hoped the EU would agree on the new controls before the meeting.

But he warned that if there was no accord, he would act unilaterally to ban the import of 130,000 tonnes of beef, worth about £250m and comprising about 25 per cent of the UK's beef market.

Mr Cunningham added that he believed most member states strongly supported the idea of Europe-wide restrictions, even though agreement had proved hard to reach. He said he had already warned EU commissioners Franz Fischler and Emma Bonino of his moves.

The tough line found favour in Brussels last night where Herr Fischler recently revived proposals for a blanket EU-wide ban on offal. But Britain's EU partners will not appreciate being lectured to by the country they blame for giving Europe BSE. Nor will the Commission condone a unilateral British ban on beef from other member states that would be in clear breach of the rules

Modest BSE
plans fail
to impress

IN THE TABLOID

that the heads, spinal cords, and various internal organs of cattle should be kept out of the food chain.

The measures were originally implemented to reduce the risk to humans from BSE after the Government announced that a number of people had died of a new form of Creutzfeldt Jakob Disease (CJD), a fatal brain disorder, and gave the "most probable cause" as exposure to BSE. So far 15 Britons have died of "nv-CJD", and one death was confirmed last year in France.

Mr Cunningham said: "I am prepared to wait until the July agriculture council but in light of the advice I have received, if agreement is not reached by then I cannot justify any further delay. And we would then implement these regulations unilaterally in Britain."

Professor John Pattison, head of Seac, said the committee's advice to the government had changed in light of the EU's failure to reach agreement on the tougher controls on sheep and beef imports.

The moves come as the *Veterinary Record*, the official journal of the British Veterinary Association, is considering a paper submitted by an international team of scientists which suggests that there has been considerable under-reporting of BSE in Europe.

Apart from the UK, other EU countries have only reported a total of 352 cases of BSE. Yet statistical studies, and comparisons with Switzerland, where a total of 225 BSE cases were reported, suggest that the EU should have reported 1,670 cases of BSE from imported British cattle alone.

Mr Cunningham said he was acting on the advice of Seac, the independent advisory committee, which has previously recommended

of the single market, officials said.

Mr Cunningham insisted the threat of unilateral action was neither a re-run of the previous government's attempts to force concessions on the EU's ban through confrontation, nor a bluff.

"This is no game. This is no bluff," he said. "I'm in earnest in making this announcement. The draft orders are in my briefcase. It's nothing to do with protectionism, it's based on very important advice to safeguard public health."

Mr Cunningham said he was acting on the advice of Seac, the independent advisory committee, which has previously recommended

I'll get you on the bus, says Prescott

Nicholas Schoon and
Jeremy Lawrence

Within five years, more people will be using public transport and driving their cars less, John Prescott, the Deputy Prime Minister, vowed yesterday. "Judge me against that," he said in a speech on World Environment Day. The number of cars in Britain might continue to rise, but the Government would encourage and persuade people to make more use of public transport.

His pledge coincided with a paper in a leading medical journal, which said that small and relatively common increases in air pollution caused six extra deaths a day in London.

Announcing a wide-ranging review of transport policy, Mr Prescott did not rule out higher taxes on fuel and on cars, and other taxation measures to discourage car use and ownership.

But he made it clear that he favoured "road rationing" – guaranteeing clear lanes for buses to move swiftly through cities. But creating extra bus lanes, tougher enforcement against cars moving or parking in existing lanes, or the third option of totally segregating bus lanes from the rest of the road all reduce the space available for cars and other vehicles.

He told a press conference that if a car journey to work took people 10 minutes longer as a result of increased congestion, while motorists noticed buses moving quickly, freely and frequently, they would be persuaded to leave their cars. Families who owned two or even three vehicles might then

sell one. When public transport was highly reliable and frequent "all the evidence shows people are leaving their cars at home," he said. "I want to go with the swim."

The transport review will lead to a White Paper next spring which will spell out the details of the Government's integrated transport policy, Mr Prescott told a conference for environment and development groups in his speech on sustainable development. He accepted some policies needed to protect the environment would be unpopular with voters, and promised to lead the battle to win over public opinion. Politicians had special talents for communicating with and persuading ordinary people on difficult issues. "We must have the courage to face up to them," he said.

He travelled to the conference at the Royal Geographical Society headquarters in London by Underground rather than his ministerial Jaguar. At the press conference afterwards he dismally admitted that he had not understood some of the phrases civil servants had written in his speech. The exact meaning of "biodiversity" was a mystery to him. And a reference in the speech to "endocrine disruptors, which mimic sex-hormones" – the so-called gender-bender pollutants which are a fast rising environmental issue – left him quite baffled.

"There's quite a few things I don't know enough about yet," he said, asking for more time. But he warned environmentalists against jargon. "I need to translate this technical language into something people can understand." He was asked about the Prime Minister's

decision to fly to the G7 Summit in Denver and the five-year follow-up to the Rio Earth Summit in New York – both at the end of this month – using the world's single most polluting vehicle, Concorde. Mr Prescott would not criticise Tony Blair, but said when he flew to the Earth Summit he would not use Concorde.

The Liberal Democrats' environment spokesman, Matthew Taylor, called on the Government to set national targets for cutting road traffic now, and green tax reforms in next month's Budget speech from Gordon Brown which would end the company car perk.

Daily death rates in seven western European cities, including Paris, Milan, Cologne and Athens as well as London, rose by an average 3 per cent when pollution levels for sulphur dioxide or black smoke increased by 50 microgrammes per cubic metre, the study in the *British Medical Journal* found. Vehicles, especially diesels, are one of the most important sources of these pollutants. However, death rates in the five eastern European cities studied, including Bratislava, Cracow, and Lodz rose less – by 0.6 per cent when sulphur dioxide levels were raised by 50 microgrammes and by 0.8 per cent when black smoke levels were raised.

Researchers from the European Air Pollution and Health project say the findings show that the short-term effects of low levels of air pollution are "not a trivial public health problem" given the large numbers of people exposed. About 23 million people live in the 12 cities studied.

Old favourite: A conductor standing at the back of a Routemaster bus, whose open platform is popular with travellers. Photograph: Philip Meech

Hospital debts threat
One of Labour's key election pledges to cut waiting lists has been put in jeopardy by the discovery of £300m debts facing health authorities and hospital trusts. Page 6

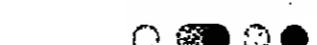
Railtrack review
The Rail Regulator has launched a review of public subsidies to Railtrack, after it announced a 27 per cent increase in pre-tax profits last year. Page 22

CONTENTS

THE BROADSHEET
Business & City 22-26
Comment 19-21
Foreign News 14-17
Gazette 18
Home News 2-13

THE TABLOID
Leading articles 19
Letters 19
Obituaries 18
Shares 24
Sport 27-30
Architecture 6-7
Crossword 22
Music 9-18
TV & Radio 23-24
Weather 22

23
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Piggott silk sold by Sotheby's was false

Racing enthusiast spotted error in catalogue but auction house still conducted sale

Clare Garner

A horse racing enthusiast assumed he was bidding a winner when he paid £5,520 for the silks worn by Lester Piggott on his first Derby win. Sotheby's knew he was not.

The London fine art auctioneers failed to inform potential purchasers at its first sale of racing memorabilia, last November, that the prize silks were not genuine, despite having been alerted to the fact three months earlier.

John King, from Plumpton, in Sussex, had contacted Sotheby's when he spotted that the silks photographed in the catalogue did not match the ones pictured in newspaper cuttings of Piggott's win on *Never Say Die* in the 1954 Derby.

The only footage of the day was black and white, but Piggott wore the colours of the horse's owner, Robert Sterling Clark: cerise and grey stripes with a blue band across the middle.

"It was quite plain to see that whereas the catalogue picture had the pale stripe down the middle, Lester had the dark stripe down the middle. Obviously the pattern itself was the same but the garments were different," Mr King tells BBC1's *Weekend Watchdog* tonight.

"I rang Sotheby's because ... I thought rather than let them



Spot the difference: Lester Piggott after his 1954 Derby win and, far right, replicas of the silks worn by Piggott (left) and by Sotheby's (right). Piggott's silks have a grey central strip, rather than pink

make a mistake it would only take a minute to give them a ring to tell them and presumably then they would change the description in the catalogue," he adds.

The catalogue for the Racing Sale, however, remained unchanged. The Marquess of Hartington, deputy chairman of

Sotheby's Holdings and former Senior Steward of the Jockey Club, flagged up the emotional high point of the sale in the foreword. He wrote: "We are particularly pleased to be able to offer in the same sale silks that were worn by Lester

Piggott on the occasion of his first Derby win." The silks were conservatively estimated to fetch between £300 and £500.

Now, seven months later, Sotheby's has confirmed that it had its doubts about the silks before the sale. A caption under the photo of the silk in the catalogue said it was "believed to be" the

ones worn by Piggott in 1954. A spokesman for Sotheby's said: "We should have issued a pre-sale notice advising potential purchasers accordingly. We obviously regret we did not do this."

Mr King had spoken to Chantal Langley, at Sotheby's Newmarket office. She asked

him to send the newspaper cutting and said that they had had a phone call from someone in America claiming that they had the original silks.

Mr King did not hear from Sotheby's until three months after the sale, which fetched £1,7m. On 4 February, he received a let-

ter from Mrs Langley stating: "The catalogue description of the racing silks reflected Sotheby's opinion as to their likely provenance given the information provided by the seller."

Mr King commented on Sotheby's actions: "It tends to

make you feel that they will sell

anything provided that the seller tells them that it's genuine." Sotheby's is not legally obliged to give a refund, but has offered to do so. The unidentified purchaser is understood to be "keen to keep the silks" and "entirely happy with the way Sotheby's handled the matter".



Minister unmoved by Camelot threats

Steve Boggan

Threats by directors of Camelot to resign if they are ordered to repay their controversial bonuses will be ignored today by Chris Smith, Secretary of State for National Heritage, as part of continuing efforts to get tough with the lottery organiser.

Sources close to Mr Smith said he has been unmoved by reports that three of Camelot's top executives may quit today and by the announcement that three of the company's five shareholders will pull out if the operation is made "not-for-profit".

Following his meeting last Monday with Camelot chairman Sir George Russell, at which he expressed anger at bonuses of up to 90 per cent of salary being paid in a year when donations to good causes fell, Mr Smith is awaiting a response to three proposals aimed at restoring public faith in the lottery.

He asked Camelot to repay

£7m of interest from unclaimed prizes to the good causes fund; suggested that the directors pay some or all of their bonuses to charity; and recommended paying all or some of all future bonuses to charity. On top of those proposals, Camelot was given six weeks to come up with plans for operating as a not-for-profit organisation.

Over the past three days, however, a number of stories appeared in the press, apparently designed to put pressure on Mr Smith to reconsider a position that looked increasingly radical in the light of independent research showing that Camelot runs the most successful and efficient lottery in the world.

First, Sir Ernest Harrison, chairman of Racal, and Jeremy Marshall, chief executive of De La Rue, both of which own 22.5 per cent of Camelot, said they would not participate in a not-for-profit organisation. They were joined by GTECH, the

US shareholder responsible for lottery technology, which said it would not provide goods and services without a profit element.

Second, it was reported that Tim Holley, Camelot's chief executive who earned £590,000 last year; David Rigg, its £333,000-a-year communications director; and Peter Murphy, £361,000 finance director,

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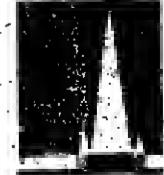
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Redwood says Clarke must toe Emu line

Colin Brown
and Anthony Bevins

John Redwood raised the pace in the Tory leadership election campaign by warning Kenneth Clarke he would not be able to serve in a Redwood cabinet unless he toed the line, by opposing the European single currency.

As nominations closed with five candidates in the race, Mr Redwood said he would stop the civil war in the Tory party by imposing a clear policy to rule out British entry into the single currency.

"If they wish to be in the Shadow Cabinet, and I think Ken should be in the Shadow Cabinet, then they will be required to stick to the Shadow Cabinet line."

"I say it must be settled now in this leadership election. The party must make up its mind in a few days' time. If Ken and others say that keeping up a campaign for a single currency of some sort is more important than being in the Shadow Cabinet, I will respect that position."

Mr Redwood said his clear rejection of a single currency was the only way to stop the Tory party having "all the charm

of a Balkan battlefield". But his critics said it would deepen the splits in the party.

Mr Clarke's camp are hoping to take more than 50 votes in the first ballot next Tuesday and there has been continued speculation that some could leave the party if it swung decisively towards Euro-scepticism.

Mr Redwood's move to turn the leadership election into a ballot on the European policy was intended to oust the other right-wing candidates. William Hague issued a glossy brochure which did not mention the issue.

In the jockeying for position, Mr Hague claimed more support among the new intake, including the former Asda boss, Archie Norman. Michael Howard recruited David Faber, one of the backers of Stephen Dorrell who dropped out in favour of Mr Clarke.

Some of Mr Hague's supporters, who might have been thought to have been natural Clarke backers, were saying yesterday that the former Chancellor could not unite the party, which is why they had opted for Mr Hague. It was also being said at Westminster by

Contenders and their supporters

Apart from the hard-core campaigners, who have declared their support for each of the Conservative leadership candidates, there are unofficial lists of potential supporters collected by each camp.

The Independent has identified more than 100 of the 164 Conservative MPs from these lists, and while some might be mistaken – particularly with MPs wanting to consult their local parties before casting their votes on Tuesday – they could provide a rough indication of the way in which the first-round voting might be weighted.

The closeness of Clarke, Hague and Howard is marked; but Lilley cannot yet be discounted – unless Howard beats him to become the lead right-winger in the first-round ballot. But with more than 40 votes uncommitted, the result could swing any way in what MPs acknowledge is a "lottery".

KEN CLARKE

David Curry (joint campaign manager); Michael Jec (joint campaign manager); with support declared by: Michael Mates, John Gummer, and Ian Taylor.

Possible supporters include: Tony Baldry, Banbury; Virginia Bottomley, SW Surrey; Peter Brooke, Cities of London and Westminster; Quentin Davies, Grantham and Stamford; Stephen Dorrell, Charnwood; Sir Peter Emerley, E Devon; Michael Fabre, Lichfield; Sir Norman Fowler, Sutton Coldfield; Edward Garnier, Harborough; Sir Alan Haselhurst, Saffron Walden; Sir Edward Heath, Old Bexley and Sidcup; Michael Heseltine, Henley; Douglas Hogg, Sleaford and North Hykeham; Robert Jackson, Wantage; Sir Geoffrey Johnson Smith, Wealden; Tom King, Bridgwater; Sir Peter Lloyd, Farnham; John MacGregor, S Norfolk; Sir David Madel, SW Bedfordshire; Richard Ottaway, Croydon S; Andrew Rowe, Faversham and Mid Kent; Peter Temple-Morris, Lauder; Robert Waller, N Dorset; Sir Ray Whitney, Wycombe; Shaun Woodward, Witney; and Sir George Young, NW Hampshire.

(Total 32)

WILLIAM HAGUE

James Arbuthnot (campaign manager); Alan Duncan, Nigel Evans, James Pelca; Tim Yeo; Roger Gele; Nick Hawkins; Humphrey Malins.

Possible supporters: Michael Ancram, Devizes; Peter Bottomley, Worthing W; Ian Bruce, South Dorset; James Clappison, Hertsmere; Geoffroy Clifton-Brown, Cotswoold; David Heathcoat-Amory, Waller; Cheryl Gillan, Chesham and Amersham; Julie Kibbey, Bromsgrove; Tim Loughton, E Worthing and Shoreham; Sir Nicholas Lyell, NE Bedfordshire; John Maples, Stratford-on-Avon; Malcolm Moss, NE Cambridgeshire; Archie Norman, Tunbridge Wells; Richard Page, SW Hertfordshire; Eric Pickles, Brentwood and Ongar; David Prior, N Norfolk; Jonathan Sayeed,

Mid Bedfordshire; Sir Peter Tapsell, Louth and Horncastle. (Total 27)

MICHAEL HOWARD

Sir Michael Spicer (campaign manager); Tim Collins; David Ovile; David McLean; Liam Fox; Oliver Heald; David Lidington; Patrick Nicholls; Francis Meade; James Cran; Christopher Chope; Andrew Lansley; Christopher Fraser. Possible supporters:

Sir Richard Body, Boston and Skegness; Simon Burns, W Chelmsford; Alan Clark, Kensington and Chelsea; David Faber, Westbury; Teresa Gorman, Billesley; John Greenway, Ryedale; Philip Hammond, Runnymede and Weybridge; Eleanor Laing, Epsom Forest; Edward Leigh, Gainsborough; Theresa May, Maidenhead; Owen Paterson, N Shropshire; Desmond Swayne, New Forest W; John Taylor, Solihull; Sir Tedd Taylor, Rochford and Southend E; David Tredinnick, Bosworth; Nicholas Winterton, Macclesfield.

(Total 30)

PETER LILLEY

Eric Forth (campaign manager); Gillian Shepherd; David Willetts; Sir Patrick Cormeier; John Whittingdale; David Amess; Bernard Jenkin; Nigel Wetstone; Gerald Howarth; Andrew Tyrie; Nick Gibb; John Bercow. Possible supporters: Michael Colvin, Romsey; Piers Merchant, Beckenham; Robert Syms, Poole; Ann Widdecombe, Maidstone and the Weald; Ann Winterton, Congleton.

(Total 18)

JOHN REDWOOD

Iain Duncan Smith (campaign manager); Angela Browning; Marion Roe; Andrew Hunter; Julian Bresler; David Wilshire; John Wilkinson; Julian Lewis; Oliver Letwin; Howard Flight; Laurence Robertson.

(Total 12)

Unidentified:

Peter Ainsworth, E Surrey; David Atkinson, Bournemouth E; Peter Atkinson, Heslem; Sir Paul Beresford, Mole Valley; Crispin Blunt, Reigate; Tim Bowell, Daventry; Graham Brady, Atricham and Sale; Sir John Butterfield, Bournemouth W; William Cash, Stone; Sir Sydney Chapman, Chipping Barnet; Michael Clark, Rayleigh; Stephen Day, Cheddie; Michael Fallon, Sevenoaks; Christopher Gill, Ludlow; Alistair Goodlad, Eddisbury; James Gray, N Wiltshire; Damian Green, Ashford; Dominic Grieve, Beaconsfield; Sir Archie Hamilton, Epsom and Ewell; John Hayes, S Holland and the Deepings; John Horam, Orpington; Robert Key, Salisbury; Michael Lord, Central Suffolk and N Ipswich; Peter Luff, Mid Worsley; John Major, Huntingdon; Brian Mawhinney, NW Cambridgeshire; Anne McIntosh, Vale of York; Andrew Mackay, Bracknell; Patrick McLoughlin, W Derbyshire; Andrew Robathan, Babby; David Ruffley, Bury St Edmunds; Richard Shepherd, Aldridge-Brownhills; Keith Simpson, Mid Norfolk; Nicholas Soames, Mid Sussex; Caroline Spelman, Meriden; Richard Spring, W Suffolk; Nick St Aubyn, Guildford; Sir John Stanley, Tonbridge and Malling; Anthony Steer, Tonnes; Gary Street, SW Devon; John Towns, E Yorkshire; Michael Trend, Windsor; Peter Viggers, Gosport; Charles Wain, Bedhill and Battle; Bowen Wells, Herford and Stortford.

(Total 45)



Harriet Harman, Secretary of State for Social Security, meeting pensioners at Southwark Town Hall yesterday. She vowed to bring in pension sharing for divorcing couples, ending the system whereby a divorcee can claim only a share of an ex-spouse's pension. Photograph: Philip Meech

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Straw curbs migrants' bogus advisers

Jason Bennett
Crime Correspondent

A clampdown on hundreds of bogus immigration advisers, who dupe vulnerable people out of thousands of pounds, is to be launched by the Government, it was revealed yesterday.

The Home Office is expected to introduce a licensing system and may appoint an inspectorate to prevent further abuses. The move follows a

huge upsurge in the number of people, many of whom have no qualifications, setting themselves up as paid-for consultants. There have been cases in which people have paid as much as £4,000 to £5,000 for "advice" on issues such as visas, work and marriage, much of which is wrong or fraudulent.

Jack Straw, the Home Secretary, said yesterday: "These so-called advisers are making a killing out of pursuing bogus ap-

plications." He also announced the scrapping of the much criticised "primary purpose" immigration rule that has barred entry to thousands of people married to British citizens.

The rule requires foreigners married to British citizens to prove that it is not the primary purpose of the marriage to gain entrance to Britain. The change will result in up to 1,000 people awaiting appeals being granted immediate entrance to

Britain and an estimated further 500 who fall foul of the rule every year being allowed in.

On the question of immigration advisers, Mr Straw said that among the measures likely to be introduced are the introduction of licensing or a register to ensure that only qualified and approved people offered assistance. An inspectorate may also be created to police the system.

Claude Moraes, director of

the Joint Council for the Welfare of Immigrants, an organisation which is approved by the Law Society, said there were hundreds of bogus advisers in every inner-city area.

Their charges ranged from a few hundred pounds to several thousand, and they often gave incorrect advice or charged for filling in standard forms and making unnecessary telephone calls.

He said: "These people are

taking huge amounts of money from vulnerable people. They know there's a massive market and money to be made. A consultant can set themselves up overnight and do not need any qualifications or training."

Mr Moraes added that he welcomed the decision to abandon the primary purpose rule.

Under the changes announced by Mr Straw, spouses applying to live in the UK with their British husband or wife will

no longer have to prove that their main purpose is not the gaining of access to this country.

Mr Straw said: "This pernicious rule has penalised genuine marriages, divided families and unnecessarily increased the administrative burden on the immigration system."

Applicants will still have to show that the marriage is genuine, that both parties have met, and that the couple are financially self-sufficient. They will also be a year's probationary period.

The Home Office is also looking at ways of making the immigration system fairer for people wanting to visit Britain for weddings and funeral.

In a further development, the Home Office plans to tighten up the issue of birth certificates after a number of cases in which criminals have fraudulently used them to assume a false identity.

Boardroom cowboys to be targeted

Kathy Marks

Cowboy directors whose companies fail through dishonesty or negligence – leaving customers financially devastated – are to be targeted in a new crackdown. Nigel Griffiths, the consumer affairs minister, announced yesterday.

Mr Griffiths was presenting the annual report of the Department of Trade and Industry's Insolvency Service, which shows that 1,140 directors were disqualified by the courts in the last financial year, a rise of 43 per cent on the 727 directors banned in the previous year.

Mr Griffiths said there would be no respite under the new government for unscrupulous business people.

"I want to spell out to the cowboys that Labour is going to be even tougher on them in future," he said.

"My message to people who are ripping off consumers is that there is no place for you in British business."

He added that he planned to "name and shame" rogue directors who had been disqualified, in the hope that publicity about their actions would deter other fly-by-nights.

DTI officials say that areas of business in which companies most frequently collapse include the building trade, plumbers, double-glazing salesmen, car mechanics and cloth-

ing companies. Among examples given by the department yesterday was that of Sharman Communications, a travel agency and tour operator that went into voluntary liquidation in July 1994, after only four months of trading.

The company, which ran up debts of £49,000, had advertised cheap summer flights in newspaper travel sections.

Most of its 700 customers had yet to take the holidays and lost their deposits. The two directors were disqualified in the High Court from holding other directorships for 12 years.

The Insolvency Service, which investigates failed companies with a view to bringing disqualification proceedings in the courts, took action against 1,430 directors last year, compared to 1,395 the previous year.

Directors can be banned for between 2 and 15 years for unfit conduct.

Mr Griffiths said consumers were particularly vulnerable when directors of an insolvent company continued trading or when a "Phoenix" company rose from the ashes of a failed one, using its assets.

"We want the Insolvency Service to be very much focused on protecting consumers and other creditors, and not in any way to be defending the rights of unscrupulous traders and business people," he said.

Dame Ninette, queen of the Royal Ballet, still leads the dance at 99



A dance to the music of time: Dame Ninette de Valois, dancer, teacher and choreographer, at rehearsals in Covent Garden, where she was principal dancer at the Royal Opera House in 1919; in 1931 she founded the company which was to become the Royal Ballet. Affectionately known as 'Madame', she celebrates her 99th birthday today. Photograph: Laurie Lewis

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Socialist congress: Prime Minister to call for labour flexibility

Modernise or die, Blair tells partners

Sarah Helm
Malmö

Tony Blair will today stake out a powerful claim to lead a European revival calling on Socialist leaders across Europe to "modernise or die".

Speaking at the Congress of European Socialists, in the Swedish city of Malmö, Mr Blair will challenge his partners to abandon the "statist" policies of the old left or risk losing the trust of European citizens.

He will tell other leaders: "Our task is not to go on fighting old battles but to show that there is a third way. A way of labour market flexibility and security in a world of change."

He will warn: "We have no more divine right to govern than the parties we oppose."

The Prime Minister will also speak bluntly to fellow Europeans about his deep disillusion-

ment with European policy-making after just one month in office. In an attack which will shake several of the architects of the European Union still in power, Mr Blair will tell them institutions they were constructing were "impossibly remote from the people".

The criticism comes as EU heads of state finalise details for a new treaty on EU reform, to be signed in under two weeks in Amsterdam.

Mr Kok, Prime Minister of the Netherlands, which holds the EU presidency, held out hope yesterday that consensus on the shape of the new treaty was now within reach. But Mr Blair will tell the Socialists today: "We must stop talking about European theology and start doing things from which real people see real benefits."

"Am I satisfied with Europe? Frankly, no."

The Prime Minister's address will be viewed in some quarters of Continental Europe as an unwarranted piece of lecturing by one of the Union's newest leaders. However, riding high on a wave of popularity after his landslide victory, Mr Blair's credentials as "a winner" have won him seemingly boundless goodwill.

Mr Blair clearly chose the Socialist Congress as the moment to try to take the reins in Europe at a time when a Socialist revival is being widely predicted. Lionel Jospin was swept to power as the new French Socialist Prime Minister this week.

Way of much of the old Labour thinking still present in Mr Jospin's discourse, Mr Blair will take the chance to reject what he believes are "rigidities" and "inflexibilities" in favour of a Europe geared to "employment and job flexibility".

Much of the agenda matches New Labour economic policy at home. Mr Blair believes he is now in a position to sell his modernising message abroad, and will attempt to persuade other Europeans that their own countries are already moving towards his radical approach.

Parties which seize this opportunity will be the parties of the future," will be his message.

The Prime Minister is also expected to admit that the previous Conservative government were correct in advocating labour market flexibility and an end to employment red tape. He will tell the conference: "The right got a lot wrong, but they were right about the need for flexible labour markets. What they got wrong was the failure to equip people with skills to adapt to change and they refused to see the need for minimum standards in the workforce."

Left looks to Europe's future

In a giant disused car plant on the edge of the moribund port, European Socialist leaders gathered yesterday at the Swedish city of Malmö to talk of revival, writes Sarah Helm.

Names of the past were summoned up for inspiration. Along the Olof Palme Way delegates gathered to debate "Socialism in the 21st century - with or without jobs?"

In the nearby François Mitterrand room they spoke of "education, education, education". And nearby, close to a shrine to Willie Brandt, the delegates discussed "What kind of Europe, large or strong?"

Few at the 1997 Congress of the Party of European Socialists were placing much faith in the past: they were pinning their hopes of a Socialist rebirth on their new heroes, Tony Blair and Lionel Jospin. Effusive Swedish papers hailed a gathering of "kings of today", recalling a gathering of Scandinavian kings in Malmö in 1914 to promote Nordic revival.

Europe's Socialists have waited long for this moment. The figures speak for themselves. Nine of the 15 European Union Prime Ministers are Socialists. Of 626 members of the European Parliament, 214 are in the party of European Socialists, by far the largest single group. Even the Nato Secretary-General, Javier Solana, present in Malmö yesterday, is a Socialist. "For the first time we are really in power," declared the delegates.

British MEPs tucking into their "new Socialist"-style pasta and bacon were relishing their sudden notoriety. "Only now do we realise how much Britain was despised when the Tories were in power. Now people want to listen to us," said Alan Donnelly, Labour MEP from Tyne and Wear. "It is exciting, a new Europe," who followed him.

Sweden's Prime Minister, Goran Persson, is facing new political challenges from the right. The Germans expressed hope that their opposition Socialist party, the SPD, would ride the Blair wave. They were also celebrating on Britain's behalf. "We are happy for you, too. You have escaped all those bad times. Your country was held up to us as an example of what happens when social values are forgotten - the racism, the unemployment produced by Thatcher and the man, what was his name? who followed him," Mr Wiklund said.

Whether Mr Blair could deliver, nobody in Malmö could be sure. Outside, the price of failure loomed over the water in the shape of giant lifting gear not used since the port closed, throwing 4,000 out of work. The Scandic Conference Centre, where the Socialists were meeting, housed a Saab car plant until three years ago when it was closed, with the loss of 2,000 jobs. Playing in pop bands such as Eggstone and the Cardigans - famous Malmö names - is now the most popular employment among the young.

Whether Europe's happy new Socialist family will be able to bury differences about revival was the unanswered question. Only this week Sweden announced it would not join monetary union. Such Continental enthusiasts were celebrating because they believe Mr Blair's victory will still support for Socialism in their countries, too.

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international

Argentina backs off Falklands claim

The Foreign minister tells **Phil Davison** his views of new Labour

Buenos Aires — Argentinian Foreign Minister Guido di Tella has hinted that Argentina wants to shelve its claim to sovereignty over the Falkland Islands and instead seek concrete agreements on trade, tourism, communications and other contacts with the islands.

"We are very flexible. Probably what you think we want, we don't. Maybe the things we want are the things you [Britain] will yield," he said.

"We do not want to ruin the lives of the islanders. If an agreement is found, I imagine the islanders would hardly notice."

Mr di Tella said he would suggest to the Foreign Secretary, Robin Cook, that they establish regular meetings at the Foreign Secretary's official residence at Chevening or elsewhere. A meeting with Mr Cook had been scheduled for next week, but it has been postponed due to the Foreign Secretary's busy diary.

The comments follow a meeting earlier this year between Mr di Tella and Malcolm Rifkind, the then Foreign Secretary, where diplomatic sources say the idea of dropping the Argentinian claim was discussed, but did not come to fruition.

"We had a very important meeting in Chevening in January," the Foreign Minister said in his first interview with a British newspaper since Labour's victory. "But it was very near the election so we didn't have time to spell out the positive consequences of that meeting. It was too short a meeting, I think they understand better our views and limitations, and vice versa."

"I hope we will be invited again to Chevening. I had also suggested to Mr [Malcolm] Rifkind [the former Foreign Secretary] that we have week-long meetings on a beach on a beautiful Caribbean island."

Contradicting recent Argentinian press reports, he said he did not foresee a major shift in Falklands policy by the Labour government and would not push Argentina's claim to sovereignty during his talks with Mr Cook. "My aspirations at the first meeting will be much more modest. "We are fully aware that no British



Keep the flag flying: The Queen's birthday parade in Stanley, Falkland Islands are resistant to the idea of contact with Argentina

Photograph: Andrew Marshall

government will ever take a substantive decision on this issue without the approval of the islanders. The islanders have acquired a *de facto* veto. It's them we have to convince" of the benefits of contacts with Argentina.

However, the islanders are highly resistant to the idea of contacts, and they will hold elections to their legislative council later this year. But diplomatic sources say that they do not rule out some pressure from the Government in London on the Falklands to ease the ban on contacts with Argentina.

"I think we [Britain and Argentina] will reach a plateau relatively soon where we agree to disagree and we allow trade and communica-

tions [between Argentina and the islands].

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backfire from Argentina's point of view and brought a tough rebuttal from Tony Blair's government, the aides said.

"The change in government has meant no change whatsoever in policies. The only difference is that Labour has a majority of over 100 in parliament," Mr di Tella said. "In policies, we do not see any difference with the Conservatives."

The Foreign Minister said he hoped the Blair government would go ahead with John Major's invitation for the Argentinian President, Carlos Menem, to visit Britain officially for the first time, hopefully next year.

"President Menem has visited every important country in the world except Britain," he said.

He also pressed for progress on

Blair's Labour party is more similar to Conservative policies."

When he met the then shadow Foreign Secretary earlier this year, Mr Cook "made it clear, on this [Falklands sovereignty] issue, he would not change British policy. I said all I hope is that you continue British policy. We advanced quite a bit harder," he warned.

Mr di Tella described the new British Foreign Secretary as "very sharp, very intelligent, he goes very quickly to the point. I've met him twice before, the last time a month-and-a-half before the elections."

Mr di Tella, known for his so-called "Charity Offensive" of sending Christmas cards and other messages to the Falklanders, is considered aloof and arrogant even by Argentinians. He refused to accept

that the Falkland Islanders can't

stand him — "they're under peer pressure to say they dislike me but eventually they'll come to appreciate me" — and suggested the Union flag meant less to Britons or Falklanders than his own flag does to Argentinians.

He would not be drawn on Mr Menem's past remarks that the Argentinian flag would fly over the Falklands, even if alongside the Union flag.

"This matter of flags. You can go in London and buy panties with the Union Jack. If you do that here with ours, you go to prison for lack of respect," he said, appearing to imply that seeing his flag over the islands would be more symbolic than significant.

Mr di Tella, Foreign Minister for the past six years, compared the lack of communication between Argentina and the islands with the situation between the Koreas or between Taiwan and China. "This position, unfortunately, doesn't give the islanders a good image. In a world where everybody wants to talk to everybody else, some people don't want to talk to a neighbour."

"It's difficult to hate for ever. It's very tiring and then you find you are very tired and you don't know why you hate. It's a bit pitiful, really." He described the islanders as "indeed part of the problem but a significant part of the solution".

Migrants change their minds about Australia

Robert Mulliken
Sydney

A warm love affair between Hong Kong immigrants and Australia has turned cool. Less than four weeks before Britain hands Hong Kong over to China, thousands of Chinese are packing their bags to leave the lucky country, convinced they can make more money back in the former British colony, even under communist rule.

"When Margaret Thatcher announced in the Eighties that Britain would give up Hong Kong, it was fashionable to emigrate, to get out," said Owen Yue, 40, a transport planner who arrived in Sydney from Hong Kong in 1990. "Now, it's the fashion to go back."

The figures tell their own story. From being almost a non-starter as a source of Australian immigrants a few years ago, Hong Kong last year was the fourth largest source country after New Zealand, Britain and China.

But, in the six months to last December, just as the handover deadline loomed closer, applications to emigrate to Australia dropped by one-third.

And even those granted Australian residency had already begun testing the waters back home. According to the Hong Kong Trade Development Council, a Hong Kong government body, almost one-third of

the 100,000 Hong Kong community in Australia will return to the colony to work last year, while retaining their Australian passports.

The immigrants of the Nineties are a different breed from the first wave of Chinese drawn by the Australian gold rush of the 1850s. In the intervening years came the White Australia immigration policy which barred non-Europeans until it was abolished only 25 years ago.

The latest wave of Hong Kong immigrants are highly skilled professionals and rich business people, who are expected to transfer about A\$780m (£370m) from Hong Kong to Australia this year. Much of this will be invested in

properties such as the high-rise apartment buildings that are changing the skylines of cities like Sydney and Melbourne, or in restaurants such as the Shark Fin in Sydney's Chinatown, an establishment so vast that the waiters communicate with each other on walkie-talkies.

But for many professional people, such as lawyers, engineers and accountants, job prospects have been disappointing in Australia, where unemployment has not fallen below 8 per cent since the recession of the early Nineties. Drawn to Australia for its political stability at a time of uncertainty in Hong Kong, these people have decided that life in Hong Kong is likely to go on as

normal after 1 July, at least for a few years, and are going back to realise their earning capacity, leaving their families behind in Australia.

Lawyers, for example, can make up to six times more in Hong Kong than in Australia, where tax is higher. "A common refrain is that Australia is the best place to live, but not the best to make money," said Catherine Chung, a Hong Kong-born Sydney solicitor.

More unsavoury impact on Hong Kong immigration has come from the rise of racial politics in Australia, led by Pauline Hanson, an Independent MP from Queensland. Since her election to federal parliament last year, Mrs Hanson has waged an increasingly bitter and polarising campaign against Asian immigration, welfare to Aborigines and foreign investment.

The Australian press have attacked John Howard, the prime minister, for failing to repudiate Mrs Hanson strongly enough. Her simplistic brand of xenophobia and nationalism has drawn large crowds at her speaking engagements, especially in depressed rural areas. It has also caused alarm in Asia, particularly in Hong Kong, where some prospective immigrants have added the "Hanson phenomenon" to their list of reasons to think twice about emigrating down under.



Unwelcome message: John Howard (left) has been attacked for being too soft on racist MP Pauline Hanson

Peking names top envoy for HK

Renter — China yesterday announced the appointment of seasoned diplomat Ma Yuzhen as its top civilian official in Hong Kong after the British colony reverts to rule by China at midnight on 30 June.

Peking had decided to appoint Mr Ma as Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in the Hong Kong Special Administrative Region from 1 July, a ministry spokesman said. Mr Ma and the garrison commander, General Liu, Zhenwu, will be Peking's most senior officials in Hong Kong after the handover.

Hong Kong's domestic affairs will be run by Hong Kong residents after the handover, but foreign affairs and defence will remain

the central government's turf. Mr Ma, 62, has been vice-minister of the Information Office of the State Council — or cabinet — since 1995. He served as Chinese ambassador to Britain in 1991-95, consul-general in Los Angeles in 1988-91, and director of the Foreign Ministry's information department in 1984-88. "Ma Yuzhen belongs to the new generation of diplomats ... He's open-minded," said a former diplomat. China's old generation of diplomats consisted mainly of generals and bureaucrats.

In 1995, Hong Kong's *South China Morning Post* described Mr Ma as "the sort of Chinese diplomat Western capitals love to play host to, affable, charming and not averse to talking quietly off-the-record with

politicians and businessmen". He was a "well-liked senior diplomat, a favourite of Lady Thatcher," the *Post* said.

The Hong Kong government welcomed the announcement. "The community will be glad that the appointment of Mr Ma Yuzhen has been announced," the government said in a statement. "Hong Kong people will no doubt be interested to hear more details of the establishment of this new office, including the size of its staff and its functions," the statement said.

Young Sum, vice-chairman of the Democratic Party, said Mr Ma's diplomatic experience in London and his understanding of the handover issues made him an appropriate person for the job.

Impotent force behind

claim

Keep the flag flying: The Queen's birthday parade in Stanley, Falkland Islands, is resistant to the idea of contact with Argentina

US chief of defense calls time on scandal

Mary Dejevsky
Washington

In a decision likely to arouse as much controversy as it is intended to stem, the United States defense secretary, William Cohen, has moved to prevent the accumulating revelations about sexual misconduct in the US armed forces from cutting a swathe through the ranks of senior officers.

Confirming that his favoured candidate to become the next chief of joint staffs, General Joseph Ralston, committed adultery during his meteoric air force career, Mr Cohen said he had decided to stand by the general's candidacy.

In an interview published in the *Washington Post*, Mr Cohen – who has strongly defended the enforcement of rigorous moral standards in the armed forces through the past scandal-ridden weeks – said that it was time to draw the line. "We need to come back to a rule of reason instead of a rule of thumb."

General Ralston has admitted to having an affair with a CIA agent 13 years ago while separated from his wife. He is now divorced and remarried. Reporters investigating the case have established that the general did not inform his military superiors of the affair and it was never the subject of disciplinary action – although it was common knowledge among his colleagues, one of whom described it as "flagrant".

Mr Cohen, who described General Ralston's affair as "a human error" that was outweighed by his sterling 32-year record, admitted that the decision to stand by the general put him in "a very difficult situation".

The commander at a major army training centre and a director at the same establishment were forced into early retirement this week after ad-

mitting adulterous affairs in years gone by, and other senior officers are under investigation.

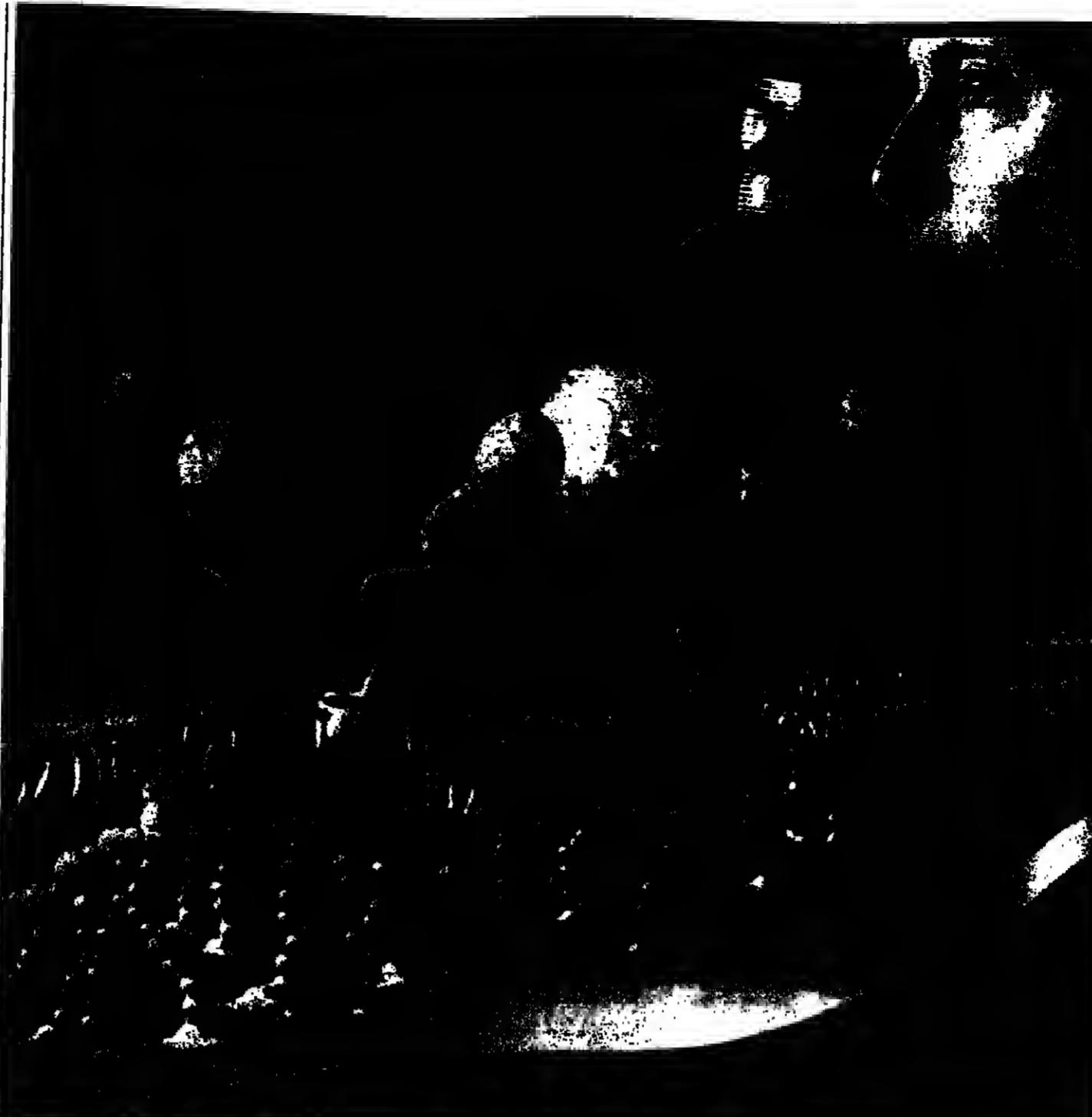
The previous week, in a highly publicised case, Lieutenant Kelly Flann, the air force's first female B-52 bomber pilot was given a general discharge in lieu of court martial after admitting an affair with a married civilian and disobeying an order to break it off. Her lawyer claimed that the military observed double standards and tended to turn a blind eye to the sexual dalliances of senior (male) officers.

These cases came amid a spate of courts martial in which male officers are accused of sexually harassing female subordinates. Yesterday, an army sergeant at the US base at Darmstadt in Germany became the first US soldier serving outside America to be convicted of sex crimes, when he was sentenced to two years in prison for indecent assault and other offences.

The jury gave Davis a dishonourable discharge but cleared him of six rape charges, one count of sodomy and other assault charges brought forward by 15 current or former female soldiers. Prosecutors had asked for a minimum sentence of five years for Davies, whom they called a "sexual predator" who used his rank to get sex.

Davies told journalists that he felt betrayed by the army and also by US civil rights leaders, to whom he had appealed for help in the case. "Race was indeed an issue," Davies said. "This was a witch hunt."

Although Mr Cohen says he supports General Ralston to succeed General John Shalikashvili when he retires as chief of the joint staffs in September, the candidates' list is not closed. The White House, perhaps sensing new political difficulty in the nomination, which must be approved by the Senate, said no final decision had been taken.



Quick diagnosis: Artist's impression of the inner workings of the first nanomachine (held, inset, by its Australian inventor Dr Bruce Cornell), which will enable doctors to test for virtually all known diseases in minutes from a drop of blood or saliva. Photographs: AFP/Reuters

Drug lord is extradited to America

Matthew Chance
Bangkok

Li Yun-Chung, the man suspected of having masterminded the biggest shipment of heroin ever seized in the United States, was extradited from Thailand yesterday amid tight security, leaving behind him a bribery scandal which has shaken the Thai judiciary.

Dressed in a bullet-proof strait-

jacket and flanked by commandos wielding automatic weapons, Li was escorted on to a US Air Force flight for New York, where he will stand trial on charges of shipping 486kg of pure heroin from Burma. The narcotics, with an estimated street value of \$122m (£75m), were seized by Californian customs officials in 1991.

For years the close confidant of the Burmese opium warlord, Khun Sa, Li Yun-chung – a Burmese born

ethnic Chinese with residency in Thailand – was at the centre of "Golden Triangle" heroin production in South-east Asia. His indictment for trafficking in the US made him one of the world's most wanted men until his high-profile arrest in Bangkok last year.

The controversial decision by a senior Thai judge, Somchai Udomwong, to grant Li bail during an unscheduled hearing led to wide-

spread allegations of bribery. The allegations intensified when Li jumped bail and escaped to Burma to avoid extradition to America.

He was eventually returned to Thailand last month, fuelling political controversy by threatening to go on record saying exactly how he was granted bail.

"This is becoming extremely embarrassing for the Thai government," said one diplomat.

international

Net closes on Bosnia war-crime fugitives

Christopher Bellamy
Defence Correspondent

The new High Representative overseeing the uneasy peace in Bosnia yesterday threatened to punish anyone harbouring Bosnian war criminals who are supposed to be handed over to the International Tribunal in the Hague, signalling a hardening of the international community's attitude.

In the toughest warning since the Dayton accord was signed 18 months ago, ending the three-and-a-half year war which claimed an estimated 200,000 lives, Carlos Westendorp said he would start by trying to persuade the authorities in the two entities within Bosnia and in Serbia and in Croatia, to hand over indicted war criminals as required by Dayton.

So far, of 75 indicted war criminals, the only people brought before the court have been a Bosnian Croat who gave himself up and a Bosnian Serb, Dusko Tadic, who was seized by German police. Another seven await trial.

The most wanted men – Bosnian Serb war leaders Radovan Karadzic and Ratko Mladic – are still at large in Bosnian Serb territory. The Nato-led Stabilisation Force – S-For – is under instructions to detain wanted men if it has any chance upon them, but it never does.

Of the former warring factions, only the Bosnian Muslims have shown any inclination to hand over wanted men.

Mr Westendorp, a former Spanish foreign minister, takes over from former Swedish prime minister Carl Bildt on 30 June, and yesterday indicated he was going to take a much tougher line. "The second option is pressure," he said in Madrid yesterday. "Those who fulfil the commitments will have our support and those who do not, will have no support at all."

US Secretary of State Madeleine Albright went further, demanding that Croatia and Serbia to stop "stonewalling".

Mr Westendorp said the resolution of the war criminals issue was crucial to maintaining the peace in Bosnia. Dayton was supposed to create a model for a multi-ethnic country, but so far the boundaries between the former warring factions have solidified.

"We cannot deviate from Dayton. We must not," Mr Westendorp said. "Coexistence among the communities is not possible unless this issue of war criminals is solved".

Immediately after the accord, the peace implementation force took the view that peace was more urgent than justice, and that attempts to seize indicted war criminals would be resisted. But after 18 months, most of the wanted men remain free, and progress towards implementing Dayton has been far too slow.

The US is determined to move its troops out before the deadline of July 1998. But Britain's new Foreign Secretary Robin Cook, is among many Europeans who favour keeping forces there for a longer period.

Impotent peace-keeping force bemuses Albanians

Despite the mayhem, elections will go ahead, writes Andrew Gumbel

without the escort of two armed men.

So what purpose, if any, do the soldiers serve? "They came for nothing," said Neritan Ceka, leader of the small Democratic Alliance opposition party, reflecting widespread public opinion in Albania.

They are costing the international community between two and three million dollars a day, but I can't even go and talk

to my constituents because I

would need five cars and an arsenal of Kalashnikovs, which I don't have.

"What we need for the election is blanket observation, but now we hear complaints that the international community doesn't have the money to mount such an operation."

The election preparations tell their own tales of woe and organisational mayhem. The international body most closely involved in this is the Organisation for Security and Cooperation in Europe (OSCE), whose special envoy, Franz Vranitzky, spent most of the first half of May trying to negotiate an electoral law acceptable to all sides.

Elections are due on 29 June, but even here the force's role is painfully unclear. Having granted a grudgingly granted and highly limited mandate, it cannot protect polling stations and will not provide escorts to campaigning candidates. It will be asked to protect international election observers, but such a task requires its own logistical problems. Until a frantic, high-level meeting last week, it seemed observers would not be allowed even to go to the lavatory

Partly because of the situation on the ground and partly because of the weakness of the transitional Albanian government, deadline after deadline is being missed in the run-up to the election: as a result, the international community is ever more reluctant to commit large resources to an election that looks like being a qualified success at best. Mr Ceka's hopes of blanket monitoring are thus evaporating, and even OSCE officials admit that more remote areas simply won't be observed at all.

Not all the signs are negative, however. Last year's elections were subject to blatant fraud largely because the outside world did not care and because President Berisha, then solidly in power, managed to use the police and secret police to rig every aspect of the vote from registration through to the final results.

This time the world does care, even if it does not always know why, and the presence of the multinational force and other observers will almost certainly have a restraining effect on subversive elements.

Much of the gloom among Albanians is due to the understandably scant faith they have in their own political process and the perception that the international community is not doing enough to take matters into its own hands.

"They want us to take over, but that's not our job. These are Albanian elections after all," said Hans Peter Kleiner, a highly experienced OSCE election observer.

There are signs that the Albanians are now growing more confident about their prospects. All talk of boycotts by the opposition, for example, has ceased.

"What people in Albania have to understand is that there can be no stability without elections, not the other way around," said Gramoz Pashko, a former government minister now in exile in the United States.

"No matter how distorted and unsatisfactory these elections are, they are the only way to get out of the impasse."



'He's very nice but the wrong man for the wrong job'

to my constituents because I

would need five cars and an

arsenal of Kalashnikovs, which

I don't have.

"What we need for the election is

blanket observation, but

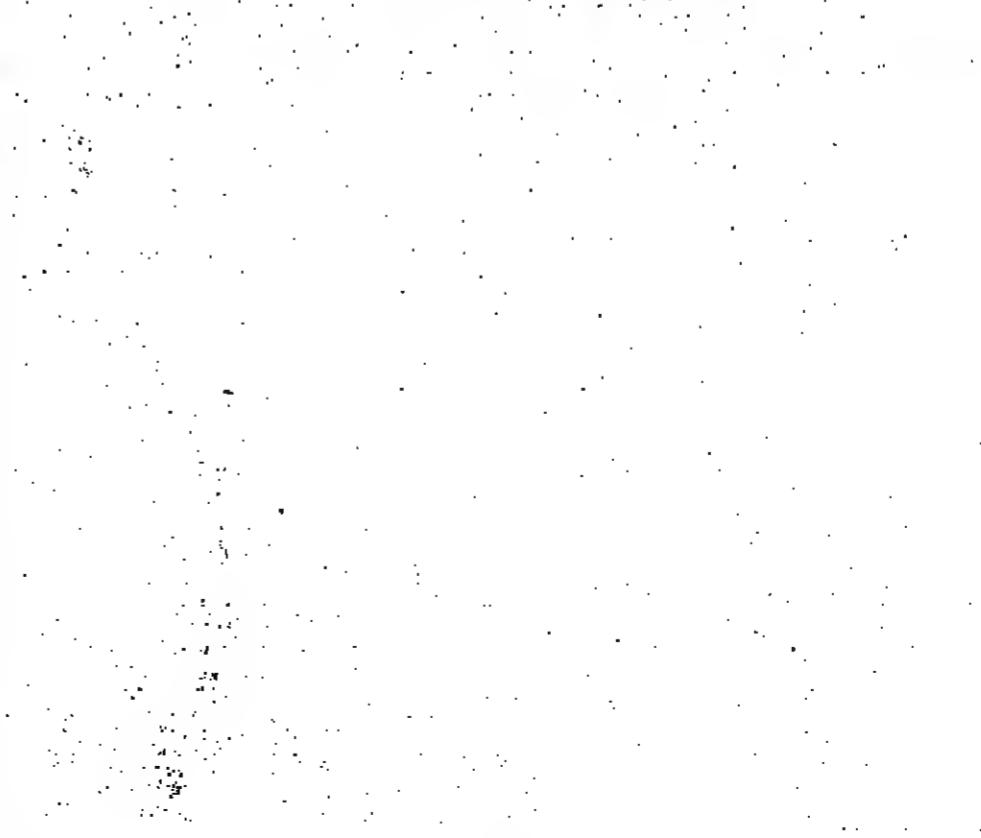
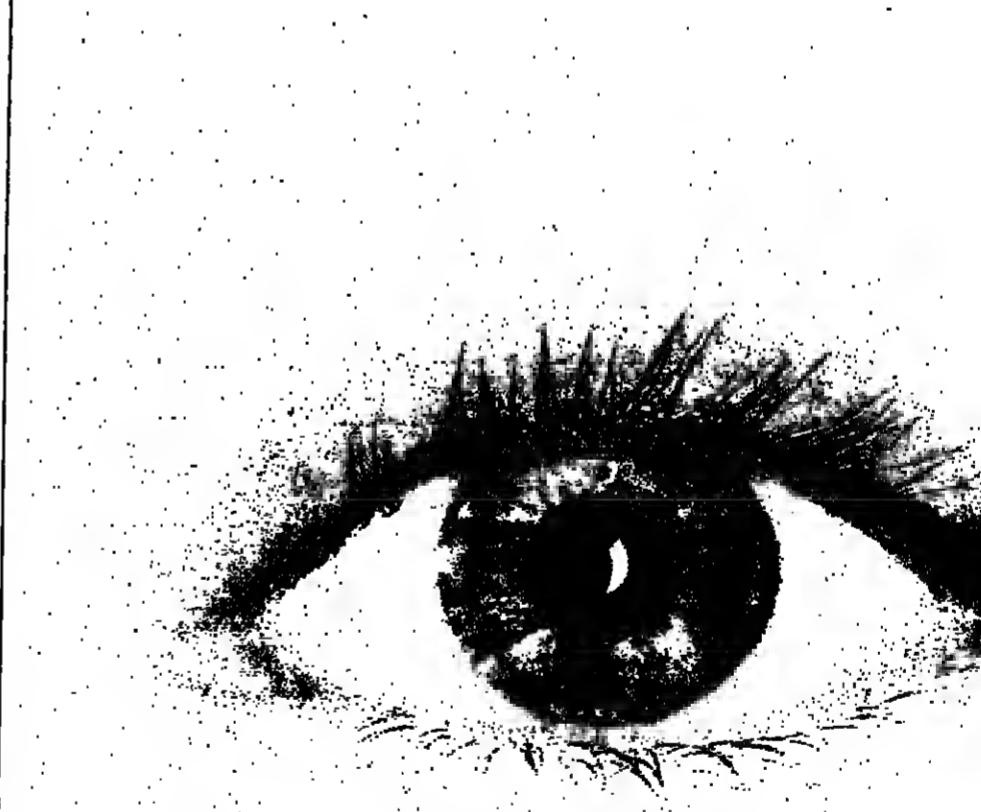
now we hear complaints that

the international community

doesn't have the money to

mount such an operation."

The election preparations



Literary prizes: you just can't put them down

This is getting silly. The Orange Prize for fiction by women, awarded this week to the Canadian writer Anne Michaels, has itself been shortlisted for a prize for the best sponsorship of the arts by business. There are now more than 300 literary prizes in the British Isles, nearly one for every day of the year. There are prizes for painting, drawing, sculpting, installing and displaying people as exhibits, not to mention music, film, theatre and any other non-functional human activity that business people in suits can be persuaded is Art. And now there are prizes for prizes.

It is all part of the sea-change in the relationship between business and the arts over the past 15 years. Over the two decades before that, from the mid-Sixties to the mid-Eighties, the arts got used to the idea that the state would have a role in funding new work. What was seen as worthwhile was often anti-commercial, oppositional, experimental, and respectable businesses would not want to be associated with it, ran the train of thought. So the taxpayer should pay for what was deemed necessary for society's cultural health, as if the vast majority of taxpayers would be sympathetic or even interested.

In the United States, taxpayers tick a box on their annual tax return if they think \$3 of their taxes should go to pay for the election campaigns of presidential candidates. Hardly anybody in

the home of democracy ticks "yes". If we tried a similar scheme in the UK for public funding of the arts, the response would probably be about the same.

So the Arts Council built an edifice of committees of the Great and Good (Luvvies Section), informed by an unstable mix of backward-looking traditionalism and fashion-prone radicalism, in the vacuum where popular support should have been. But many in the arts resisted the advent of big-league business sponsorship on the grounds that it would be worse. It was the thin end of the wedge, it was argued. Companies would only support "safe" and unadventurous work, then they would try to censor what they sponsored. The next thing would be Hamlet coming on stage with the sponsor's name on the back of his jacket, or adding the words, "Brought to you by Bigco International" to the end of his soliloquies.

It has not happened. In the theatre and opera particularly, sponsorship has been the kiss of life, and on the whole tastefully done. Arts sponsorship is big business, and big companies clearly think it is good for business.

It is in the literary field that it all seems to be getting out of hand. Every big-name company seems to want its name on a prize. One group of arts journalists was recently invited to discuss the subject by a public relations company carrying out research for a British multinational. Only after their



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tape-recorded discussion, for which they each received £50 in a brown envelope, were they told the name of the client, which was thinking of sponsoring yet another cultural prize.

Other companies have not handled their public relations so forcefully. The NCR non-fiction prize last month descended into such farce that it is hard to think that anyone would want to buy a cash register from the company, let alone buy a book with the "NCR prizewinner" flash. The company admitted paying professional readers to sift through entries so that judges would only be asked to do a little light reading.

Some companies have been keen to take their names off prizes. The Orange prize was originally sponsored by Mitsubishi, which pulled out after Simon Jenkins had a go at a female separation in a *Times* column (the actual £30,000 prize money comes from an elderly anonymous donor in the US). And some prizes have failed to generate any publicity. The IMPAC literary prize is the richest in Europe, worth £100,000, but no one has heard of it — mainly, it seems, because the American management services company bases its European operation in Dublin. It was won this year by a Spaniard, Javier Marías.

Literary prizes have been devalued as credible judges are spread ever more thinly over the ground. There are tales of judges failing to take competitions seriously, of corruption, cronyism and hype. Prizes have become dates in a social "season", rather than tests of literary merit.

So there is a good case for calling a halt to the circus. But before donning the hair shirt, let us remember that not everything ridiculous should be banned. At least these dinners give budding authors the chance to get out a little and rub shoulders with brewers, mobile-phone operators and agrochemical manufacturers in the real world.

But there is also a natural law about these things. Public and journalistic interest in the prizes caravan will subside, and what will remain will be the few prizes of real literary value. The Booker, founded in 1969 and strongly promoted for many years by Sir Michael Caine, Emma Nicholson's husband, certainly widens the appeal of new literature. The Whitbread prize, almost as long-established, has well-respected category awards for fiction, first novels, children's books, poetry and biography. These are worthwhile prizes because they persuade large numbers of people to read good books.

Businesses will also go on finding new ways of sponsoring new art. It may seem strange, but putting a David Hockney painting on the tail of a British Airways

747 is one way of bringing modern art to a wider audience.

Historically, arts patronage has always been a job for the private sector. Public funding should primarily be devoted to the arts that command public support ("the people's money for the people's priorities", as Labour's Lottery slogan has it). Of course, BA is unlikely to discover and promote talented new artists, but Charles Saatchi, Vivien Duffield and the Sainsbury family can do that. Business sponsorship, meanwhile, will bring good authors and artists to the attention of millions who might otherwise be inattentive. So let them all have prizes.

Research on a sticky wicket

Latest instalment from the Centre for Wishful Thinking Studies: a lifetime of "persistent, moderately heavy" alcohol consumption does not impair cognitive performance, according to new research. Well, the research was conducted among Australians. We watch their soaps, we drink their beers, and it's never done us any harm. Our brains are in the same pristine condition as they ever were. Although we did have a funny hallucination yesterday, when we imagined that England were thrashing Australia at cricket.

Patent law moving in on human genes

Sir: Charles Arthur ("The mouse that roared", 4 June) omitted to mention that under the proposed directive on life patents currently before the European Parliament, both the baby mouse case and the Japanese transgenic mouse would be condoned by EU legislators. Despite much controversy over this directive, already rejected once by MEPs in 1995, the European Commission is seeking to extend patent law into an area where it has no place.

Human genes and cells, transgenic animals, genetically engineered plants and seeds would all be treated as basic raw materials for the gene technology industry to exploit, protected from competition by the monopoly rights granted by industrial patent law. The TRIPS/GATT agreement permits the exclusion of patents on animals and plants, but the Commission and the biotech industry have chosen to ignore this.

Nobody wants to prevent genuine medical research, but granting patents on living material is not the way forward. In addition to ethical, philosophical or religious objections to commercial claims to have invented "new nature", there are serious doubts as to whether such research is actively promoted under the patent system. Although there is an inbuilt exemption from paying royalties on "pure" research, any "applied" research or application of the patented technology (and the living material which would be covered by the patent) requires the paid consent of the patentee. In the past, pure research was the preserve of academics. Today both pure and applied research tend to be in the hands of corporate scientists and genetic engineers. Their employers are reluctant to develop and market new products unless they are protected from competition and can avoid expensive patent infringement litigation. There are, however, alternative forms of reward, such as Orphan Drugs protection, which have not been adequately explored.

The Green Group is arguing for the exclusion from patentability of living organisms whilst retaining protection and reward for genuine innovations which may make use of genetic knowledge. This appears to us to be a practical and common-sense dividing line.

NUALA AHERN MEP
The Green Group
European Parliament
Brussels

part of a national network of banks. There is a further probable benefit in that stem cells from a newborn infant (which are immunologically naive) may not require such exact matching with the recipient as those from an adult donor.

It would be unfortunate if

commercial considerations were to block the potential benefits of these new therapeutic options. The Leukaemia Research Fund, along with other interested parties, hopes for a vigorous public debate.

MICHAEL VARCOE-COCKS
Information Officer
Leukaemia Research Fund
London WC1

What is more distasteful is the bloodthirsty procedure described in Jack O'Sullivan's article ("Wanted: but dead or alive?", 4 June) whereby survivors and victims' relatives will provide evidence to the jury in support of the death penalty. That they and prosecution lawyers should be planning to use film and photographs of victims (Boylee Almon's "first and only birthday party") is an affront to their memories and presupposes their (ungiven) consent.

The punishment should fit the crime, not the theatrical tricks of lawyers and the revenge sought by understandably distraught (and unobjective) victims and relatives.

LETTERS TO THE EDITOR



We can only hope that Jack Straw will reverse the populist and vindictive trend in judicial proceedings and concentrate on measures which will restore confidence in an efficient and impartial judicial system, where criminals are caught, prosecuted and punished by the state. Victims need compassion and, in certain circumstances, counselling and compensation: they should be neither asked nor allowed to get involved in sentencing.

MICHAEL VARCOE-COCKS
London WC1

Sir: Jack O'Sullivan's phrase "the more limited Biblical lines of an eye for an eye" requires some modification.

There is a progression of thought in both Old and New Testaments away from the idea of vengeance towards the original concept that retribution belongs only to God, as stated in Genesis 15:16: "The Lord set a mark upon Cain that no man should touch him." There was a fall away from this principle in the Song of Lamech (Gen. 4:24) — vengeance is now to be seventy times seven. The Mosaic principle of an eye for an eye (one for one) goes some way back towards the original concept. The New Testament gives the judgement of Jesus: "You have heard that they were told an eye for an eye, a tooth for a tooth: what I tell you is this, do not resist those who wrong you..." (Matthew 5:39).

Both Jewish and Christian

tradition argue that to demand retribution is to risk usurping what is

the prerogative of the Creator alone.

The Rev J STRONG
Winchcombe, Gloucestershire

Sir: Timothy McVeigh "a patriot with a cause" set off his bomb in Oklahoma because he wanted to overthrow the American government. A political act.

Had he escaped to Ireland would the Irish government have refused to extradite him? And, considering its antagonism to the repatriation of IRA suspects, what response would America have expected from the UK if he'd arrived here?

KEVIN LAFAN
London SW9

Sir: Clive Parr (letter, 4 June) fails to see the essential difference between the old schemes for assisting in the development of GPs' premises and the new one connected with fund-holding.

With the old schemes there was no direct conflict of interest with patient care. With fund-holders there is, as Dr Markus pointed out (letter, 28 May), for if a fund-holding practice can reduce the money it spends on the care of its patients, it can divert that money into the improvement (and therefore the value) of privately owned practice premises. This is bound to lead to the suspicion that patients may be deprived of care so that GPs can profit. This potential conflict of interest should not be allowed to persist.

DR IRVINE LOUDON
Wantage, Oxfordshire

Sir: It is clear from comparative research that the UK has the lowest proportion of single parents in full-time work because it has the most expensive childcare and the steepest rate of withdrawal benefit as people come into work. Until these bottlenecks are opened,

Poverty and the two-wage family

Sir: New Labour has been high on rhetoric about poverty ("Blair's pledge to the dark estates", 3 June). We have heard the statistics before. We wonder what are the solutions.

The tax and benefit systems conspire to discourage working at the lowest levels of earnings. If a typical family receives about £200 per week in social security, an offer of a job of 40 hours a week at £4 per hour, less tax of about £12 per week and expenses connected with working does not seem attractive.

It may be better to change the tax and benefit system so that a minimum wage to cover the cost of a family. It is becoming ever more difficult for breadwinners, married or single, to provide for a family. There are many families with no jobs or two jobs and fewer with one job. Society is geared to the two-earner family.

A way must be found to enable breadwinners to support their families. Let us hope Frank Field will provide a concrete approach.

FRANCES SAVIN
Full Time Mothers
Ingleside, Essex

Sir: Your map (Analysis, 30 May) shows Chechnya as an independent state on the borders of Russia alongside such countries as Georgia, Armenia and Ukraine. The Chechen Republic is an integral part of the Russian Federation, the modality of its status of which will be determined by the Federal Centre and the Chechen government by negotiations within the next five years.

GUERMAN GVENTSADZE
Charge d'Affairs
Embassy of the Russian Federation
London W8

encouraging single parents to return to work, we will be squeezing the inimicite tube without taking the top off.

EARL RUSSELL
Liberal Democrat Social Security spokesman
House of Lords
London SW1

Sir: In detailing some of the changes in the workforce in recent years, Diana Coyle writes of the "fact that one in five households does not have anybody in work" and claims that this includes "pensioner households" ("Working towards secure jobs", 29 May).

The one-in-five figure relates, in fact, specifically to non-pensioner households. For the UK the number of non-pensioner households with no working member is around 3.4 million. The number of non-pensioner households is 16.9 million (out of a total of 22.4 million), giving the 20 per cent figure.

PAUL ASHTON
Eastbourne, East Sussex

Sir: Your map (Analysis, 30 May) shows Chechnya as an independent state on the borders of Russia alongside such countries as Georgia, Armenia and Ukraine. The Chechen Republic is an integral part of the Russian Federation, the modality of its status of which will be determined by the Federal Centre and the Chechen government by negotiations within the next five years.

GUERMAN GVENTSADZE
Charge d'Affairs
Embassy of the Russian Federation
London W8

The arts need a new strategy

Sir: Polly Toynbee's interview with the new Heritage Secretary, Chris Smith (3 June) indicates the winds of change sweeping through the Department of National Heritage. Chris Smith's wish to encourage Lottery funds distributors to set their own coherent strategy is very welcome. The *ad hoc* nature of the present system where projects can only be initiated by the applicants is in desperate need of revision.

But might I suggest a more radical approach? The Lottery, for good or ill, has transformed the cultural landscape, but has not been put into the context of priorities or needs. Britain's funding system is a laudable patchwork, but inevitably much is duplicated, short-term and incoherent. The previous government did not accept the need for a cultural strategy. A review of the whole funding system for Britain's culture is long overdue.

We owe it to ourselves and future generations to look at what we want as a nation and then find ways of properly funding it for posterity.

COLIN TWEEDY
Director General
Association for Business
Sponsorship of the Arts
London SE1

Councillors are good value

Sir: Your item on councillors' pay ("Councillors' pay rises by a third", 21 May) referred to Birmingham's spending on allowances for its 117 elected councillors.

The new regulations were, in the Conservative government's own words, designed to "encourage people with a wide range of backgrounds, experience and skills to serve as councillors" and to "allow local authorities to give more adequate remuneration to those councillors with special responsibilities".

The total expenditure on councillors' allowances actually represents less than 0.04 per cent of the gross expenditure of Britain's largest local authority. Payments equate to around £25 per day per councillor or just over £1 per elector per year — looked at either way this represents extremely good value and a small price to pay for the maintenance of local democracy.

MICHAEL LYONS
Chief Executive
Birmingham City Council

Sad tradition

Sir: Female "circumcision" has been practised for thousands of years, sad testimony that the existence of the clitoris is an ancient part of folk knowledge in much of Asia and Africa. Mateo Colon's main claim to fame ("The anatomy of desire", 3 June) is that he anticipated Harvey by discovering the pulmonary circulation of the blood.

P J STEWART
Oxford

Maggot in brain

Sir: What's this about earworms (Letters, 3, 5 June)? The term for that annoying tune embedded in your brain is "maggot". Hence all those Elizabethan pieces with titles like "Captain Johnson's Maggot". JOHN SMURTHWAITE
Leeds

Post letters to Letters to the Editor, and include a daytime telephone number. Fax: 0171-293 2056; e-mail: letters@independent.co.uk. E-mail correspondents are asked to give a postal address. Letters may be edited for length and clarity. We regret we are unable to acknowledge unpublished letters.

analysis

Mr Cook, we are up in arms

Why do women in Liverpool care so deeply about British arms exports to Indonesia?

Paul Vallely meets a group which has vowed to pursue direct action until Labour's new ethical foreign policy bans the trade

He's a friend of mine," says Costa. The silence of the group of women in the room intensifies. On the TV screen in the corner of the room appears the gaunt figure of Alfredo. The camera lingers over his painful frame as he recounts how he was tortured: cigarette burns, fingernails pulled out, and a table leg rubbed up shins until the bones came through. Then he was shot four times. Miraculously he survived, but his body carries the cruel marks.

"It makes me ashamed to be British," says Eileen Laing afterwards. Costa is a refugee in his early twenties, from the tiny island of East Timor in the Indonesian archipelago. Eileen is a grandmother from the parish of St Michael's in Liverpool. Theirs is a curious alliance, but one so singular that last year's winner of the Nobel Prize for Peace, Bishop Carlos Belo, who is in London this weekend to deliver the Millennium Lecture of the Catholic aid agency, Cafod, is to make a special journey to Liverpool to meet Eileen and her friends.

A group of them are in the room to watch the TV programme - a *World in Action* expose of British arms exports to Indonesia, the country that has illegally occupied East Timor for 23 years. East Timor is one of those causes which the New Right used to deride as an example of the marginal daftness of the chattering classes, the kind of thing Harold Pinter used to write to *The Guardian* about. But there is nothing of that about Eileen and her friends, respectable middle-aged ladies in sensible flowery frocks and light summer cardigans. Some of them are more than middle-aged. Mollie is in her eighties, but refuses to tell anyone exactly how old she is.

Still, she remembers when her home town was bombed, during the Second World War. At a service held in the bombed-out church of St Luke's - which stands as a memorial to the Nazi blitzing of Liverpool - she told the others what it was like to be attacked by aircraft. It was a sobering connection, for they were gathered to march on

the city's law courts in a protest over the sale of 40 British Hawk attack aircraft, which the East Timorese say have been used to relentlessly bomb and strafe tens of thousands of villagers from their homes. British Aerospace, which makes the planes, vehemently denies this; it must be some other aircraft. But among Mollie's party is another East Timorese refugee, Lopes, who tells of the many occasions he has seen the Hawks in action with his own eyes. There is no doubt whom the women of Liverpool believe.

It is not just the Hawks. Britain is now the single most important supplier of arms to the regime in Indonesia, which is responsible for the worst genocide since the Nazi Holocaust.

Eileen and her fellow parishioners at St Michael's, near the Anfield district of the city. The four women who smashed up the Hawk jet could not be tried at Preston Crown Court. The Ribble valley which surrounds it is the heartland of the British arms industry. Some 77,000 jobs there are directly arms-related, to say nothing of the subsidiaries and service industries that depend upon them. To secure an unbiased jury, the hearing was transferred to Liverpool.

The trial brought a sea change. "Before then, it felt as if we were pushing uphill, but now it has a total momentum of its own," says Joanna Wilson, a former Sunday school teacher who was one of the four women who were dramatically acquitted at the end of the trial, after the jury accepted their contention that their action was a last recourse

against what the UN has officially branded as genocide. "In the six weeks before the trial things really mushroomed. Peace groups, church groups, women's groups, youth groups, political groups and trade unions came together. Ordinary people were talking to pub about something happening across the other side of the world."

At St Michael's RC church the parish priest, Fr Arthur Fitzgerald, began to mention the subject in his homilies. Soon after, "a group of women in their fifties and sixties who," as Jo Wilson puts it, "had never done any campaign thing before in their lives" leafleted the cathedral when the new archbishop of Liverpool was being inaugurated. They held what the priest calls "silent, persistent, unaggressive protests" outside the court. Since then members of the Liverpool protest group have been involved in countless meetings, vigils and demonstrations, which have included moves to get Liverpool City Council to enter into a twinning arrangement with the capital of East Timor. They have disrupted the British Aerospace AGM, and annoyed the Department of Trade and Industry with dust on Ash Wednesday. This week they have pressed MPs to put down an early day motion in the Commons.

Some 60 of them routinely hold vigils of silent prayer outside the factory at Warton where eight of them, including the parish priest and four Timorese refugees, were arrested after climbing the fence to hold an Easter liturgy at the end of regular Lenten vigils outside the gates.

"Twelve months ago we didn't know where East Timor was," says one of the women, Rachel Mulrooney.

"We have changed. Look at that general," she adds, referring to the Indonesian front-man who had tried to defend the regime's actions on the TV programme. "He's living an illusion. We were living it too, we were encouraged to," she says of the arms industry which dominates the North-West. "It may seem naive, but I think basically people are decent - if they know about it they will insist on something being done. That's what happened to us."

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ever before; total exports to Indonesia from the EU were \$4.1bn in 1990, and by 1994 had risen to \$5.7bn. It's a growing and significant market-place. No wonder the Asia desk at the Foreign Office is closely DTI-linked, and is particularly unresponsive to lobbying by human rights groups.

Though Indonesia's annexation of East Timor in 1976, two years after it received independence from Portugal, was as illegal as Saddam Hussein's invasion of Kuwait or General Galtieri's takeover of the Falklands, the long-term Foreign Office attitude is "no change in policy until Suharto goes". The fears must be that New Labour will not change it, especially since Robin Cook must be unwilling to sour relations with Foreign Office mandarins so soon on what they regard as a peripheral issue. Behind

the scenes it is said that Cook is thinking of a token future ban on water cannon, but is less malleable on the expensive, high-tech hardware, especially with new questions hanging over British Aerospace's Euro-fighter. And he is unlikely to revoke existing licences for fear of hefty compensation bills from British exporters. Labour did not promise an ethical foreign policy, cynical insiders point out, only "an ethical dimension" to it.

The Liverpool campaigners are undaunted. "There's a new mood after years of despair," says one of the men, Terry Egan. "You've got to move quickly, while the air of decency is still new. It's an opportunity we've never had before. Cook is signalling that he is susceptible to pressure. We have to exert that before he meets Jose Ramos-Horta [Timorese foreign minister-in-exile, and Bishop Belo's fellow Nobel laureate] on July 3." Rachel announces that she will lobby the Prime Minister's wife: "I'm going to write to Cherie; after all she launched the Cafod campaign against land-mines". They discuss plans for a march, on the anniversary of the trial, from Liverpool to Warton. There may be a campaign, too, to persuade the local football clubs, Liverpool and Everton, to boycott companies such as Nike and Adidas which manufacture in Indonesia.

Will it all bring success? "We were doing the Old Testament Prophets as part of the syllabus at school recently," says another of the group, Julie Curran, an RE teacher. "What you learn from them is that success doesn't matter. The work of a prophet is not about seeing results; it's about offering an alternative." And anyway, says Rachel, "it's like throwing in a pebble; the ripples spread out, and you may touch someone and never know it." So as long as people like Costa are being tortured, the women of Liverpool will just keep on going. Robin Cook should take note.

A growing number of protesters are joining the crusade of the four women (above) who were last year acquitted after damaging a Hawk jet in a Preston factory. It was destined for Indonesia, where British arms exports are used to bolster a repressive regime (left) with an appalling human rights record. Photographs: Craig Easton; Reuter

Israel is
Patrick Cockburn

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Camelot's knights and their legendary profits

Today, a brand new *Arthurian tale* set in the Court of Camelot.

It was evening, and the Knights of the Round Table were gathering in Camelot at King Arthur's behest for one of their regular assemblies at which challenges could be made, calls for help and policy changes mooted.

King Arthur looked round the table at his trusty band of warriors and warmed to think that so many good men were at his side. Some seats were empty, because there were always some knights off on missions or looking for the Holy Grail. Originally they had looked for danger only once a week. Now it was twice a week. It made more sense. He struck the table for silence.

"My noble knights," he said. "It has been another excellent season of rescue and personal combat. We have helped many people in their hour of need, even if we have not always had thank-you letters from them."

Everyone laughed. One always laughs at a king's jokes.

"But there have been complaints."

"Not from anyone at this

table!" cried Sir Bedivere. "We have done good, yes, but we have done well by doing good!"

More laughter.

"Too well, perhaps," said King Arthur. "There have been many complaints that we at Camelot are making too much money."

"Too much money?" said Sir Kay. "But we are poor knights! We make no money! All we have is our armour, our horse and our squire!"

"And nothing else?" said the king. "No other assets?"

What of your new castle?

What of your land in

Mercia? What of your gold and silver? What of your jewels in your wife's name? What of your ..."

"Ah, that," said Sir Kay.

"Well, that is all put away for a rainy day. Nothing to do with cash flow."

"And where did it come from, O poor knight?" said King Arthur. "Where did you possibly find the money? Just by rescuing damsels and slaying dragons?"

"There has been the odd reward," said Sir Kay, vaguely.

"I have levied the odd commission. I have accepted gifts from people I have

helped. Dragons tend to leave hoards. If jewels were offered, or were lying around, I was not so ungrateful as to leave them there."

"In other words, you have awarded yourselves a king's bonus!" chorused Sir Lancelot.

"Lancelot, I have to make sure our running expenses are covered."

"Running expenses, Sir Lancelot?"

"Travel, equipment, food,



Miles Kington

helped. Dragons tend to leave hoards. If jewels were offered, or were lying around, I was not so ungrateful as to leave them there."

"In other words, you have awarded yourselves a king's bonus!" chorused Sir Lancelot.

"Lancelot, I have to make sure our running expenses are covered."

"Running expenses, Sir Lancelot?"

"Travel, equipment, food,

entertainment ... all the little basics."

"Travel far, do you, Sir Lancelot?" inquired Sir Balin, slyly. There was a laugh. Everyone knew that Sir Lancelot was gone for months on end, usually to sunny countries. "Not enough distressed damsels for you there in the British Isles?"

"How to look for the Holy Grail," said Lancelot, stiffly.

"How to look for it all over the place. Not likely to be in Basingstoke, is it? More likely the Middle East."

"And what do you do when you need money, Sir Lancelot?" said King Arthur.

"We agreed when we started the Table that if in need, we would pray to God and He would provide."

"And so I still do," said Lancelot hotly. "I pray to God for help. And I hear God's voice. And it says to me ..."

"And for good reason," put in Sir Lancelot. "It is an expensive business, running Camelot. We have to make sure our running expenses are covered."

"Take all the treasure you can lay your hands on," said Kay. More laughter.

"Something like that," confessed Lancelot.

"Well," said King Arthur, "the voice of God came to me last night via Merlin and it said that if we don't stop making excess money or don't

consider giving it away, He might reallocate the Round Table franchise elsewhere."

After cries of horror, they got down to some hard paperwork and found that God's calculations were pretty accurate. The Round Table had assets in excess of 40,000,000 gold sovereigns.

"Any ideas?" invited King Arthur. "For making less money, that is."

"Give it away?" suggested one knight.

"Hold a huge party?" said another.

"Rebuild Camelot twice the size? ... Build a series of wide roads to improve the infrastructure for knightly activity? ... Fund research into the Black Death? ... Make a bid to host the next big international tournament, Eurojoust '97?"

"Go to Jerusalem?" said Sir Gawain.

"Jerusalem?" said the king.

"For a crusade, you mean?"

"Certainly not!" said Gawain, shocked.

"On a luxury How-Shall-We-Spend-The-Camelot-Money? business seminar. Should get rid of some of it."

The motion was passed unanimously.

Is Mr. right to be
in Israel? The
most of us
turned to
the West
in his
electrifying

Just a storm in a Whitehall teacup

Television viewers on Wednesday night were given a rare treat: the delicious episode of *Yes, Prime Minister* in which Sir Humphrey fights to see off James Hacker's solitary political adviser - a battle summed up in this exchange between a plaintive Prime Minister and a soothing Cabinet Secretary: Hacker: "I need someone, Humphrey, who's on my side."

Humphrey: "But I'm on your side. The whole Civil Service is on your side. Six hundred and eighty thousand of us. Isn't that enough to be going on with?"

There is just an overture of this epic struggle in the fracas over the recent appointment of extra political advisers, including Jonathan Powell, the new prime minister's Chief of Staff. Jonathan Hill, a former political secretary to John Major, complains of Tony Blair's "stormtroopers". More purist Whitehall watchers such as Professor Hennessy murmur the word "sleaze". And the idea gets about that, what with that Alastair Campbell becoming his press secretary, Tony Blair is quietly, smirkingly, "politised".

That is almost exactly the reverse of the truth. He has not only been more scrupulous in dealing with Whitehall than arguably he need have been. He has also set a precedent which should ensure that in future the Civil Service is rather less politicised than it has been in recent memory.

The Blair team had planned for some time that there should be someone new inside No 10. The type of person was described in the 1996 book by Peter Mandelson and Roger Liddle (now newly recruited member of the beefed-up No 10 Policy Unit) as a "non-ministerial political manager inside No 10, a straight player whose job is to bring together all the political and non-political sources of prime ministerial advice and ensure that the Prime Minister's political strategy is kept on track".

That is sensible. Every prime minister has found in the past that there was a problem in directing the rest of the government without a department of his or her own, and with the main sources of civil service policy locked up within the departments themselves. Powell was the obvious candidate. He is an ex-diplomat who knows the Whitehall machine. Since it was clear that he would inevitably subsume some of the traditional role of the principal private secretary, there was a further question about whether he should in fact be the Principal Private Secretary, who in modern times has been a career civil servant.

That idea was strongly, if politely, resisted by Sir Robin Butler, the Cabinet Secretary and head of the Civil Service. There was, nevertheless, a strong argument in its favour. The PPS has come to be accepted in Whitehall as the PM's main gatekeeper. A senior member of John Major's staff had been convinced before the election that Powell should be made PPS if Labour won. There was nothing written down to prevent it. In the end, however, the Blair team accepted that it would be inappropriate for Powell to take responsibility for small but sensitive issues such as honours, relations



Donald Macintyre

The Civil Service is not about to be politicised. The Prime Minister is right to fight for his own team in No 10

Order in Council.

Sir Robin is an impartial, straight dealer, if a natural, "c" conservative about the machinery of government. He has certainly bent over backwards to ensure a smooth transition. But his over-zealous champions should remember that even he has had a hard time ensuring that his multiple role of boss of the Civil Service, secretary to the Cabinet, and the PM's most senior adviser, never strayed out of neutral waters.

Was it so wise, for example, for him to carry out those limited inquiries into the allegations against Neil Hamilton and Jonathan Aitken, rather than insist they be done by the Chief Whip? Or to sanction the extraordinary spin operation by government press officers after the Scott inquiry? By making the political jobs overtly political, it protects, rather than undermines, the party-political neutrality of the Civil Service.

Blair has gone out of his way, in a memorandum to Sir Robin, to say how much he intends to value robust policy advice from the Whitehall mandarins. But he is right to beef up the strength of No 10. The electorate couldn't care less about the intricacies of an overblown Whitehall argument. They will care quite a lot if he is thwarted from carrying out his mandate by not being able to get his way over the departmental baronies and their ministers, when it matters.

When Sir Henry Campbell-Bannerman won the 1906 election, in a landslide now routinely compared with 1 May 1997, he appointed three private secretaries. One, the most junior, was a Treasury official. The No 2 had been a working journalist. And the principal private secretary, responsible for relations with other departments and the King, was a man who had stood as a Radical parliamentary candidate in the election, and would take over Sir Henry's seat when the PM died.

And no one batted an eyelid.

with the Opposition, and the transition between two administrations. What sealed the compromise was that it seemed to work: it became clear that Powell could sit in the same office as Alex Allan - the outgoing, Grateful Dead-loving PPS whom Blair admires for the way he handled the transition, without demarcation disputes.

Powell will nevertheless be PPS in all but name. The Allan replacement is likely to be an existing member of the private office staff. And why not? Compare the case of his brother, Sir Charles Powell - who wielded untold power on behalf of Margaret Thatcher, stayed in his private office job much longer than normal, and yet was theoretically supposed to be an independent, utterly non-political civil servant. It was perfectly sensible, for example, for Sir Charles to act as the link between Margaret Thatcher and the group who prepared the Tory manifesto for the 1989 European elections. After all, he knew her mind on Europe better than anyone. Whether it was entirely compatible with the purist view of a neutral, non-political civil service, is another matter. Campbell and Jonathan Powell, by contrast, are set in lights for what they are: transparently political appointments, ratified as such by

High culture? Give me Beavis and Butt-head



Pop goes the culture: (from top) Beavis and Butt-head; Jim Carrey and Howard Stern; and Tiffany and Bianca from 'EastEnders'. They are created out of banality but they are never as banal as the average play, opera or concert

by Suzanne Moore

I have seen no more profoundly depressing sight recently than the one I witnessed in a bar in California recently. Two guys in their mid-forties sauntered over to the juke-box and put on Bryan Adams' latest hit, "18 till I die". They ordered another beer and proceeded to sing loudly while punching their hands in the air to the chorus. Eighteen till they die? For maybe three minutes they believed it because they wished it. I wished they were dead.

It's easy enough to talk about the dumbing down, the infantilisation of all culture, especially the *über* culture of America. Critics get cross because *Swan Lake* is being performed in the round, because its purity is lost, while others worry that we are enthralled to *Tiffany and Bianca* on *EastEnders*. Channel 5 is yet another example of the lowering of our taste. The tabloidisation of not just the press but all our media causes worry. Even Peter Mandelson shedding a sacred tear but not one secret on *Today* was enough to prompt a *Newsnight* discussion. How professional should we be? How low can we go?

No one asks why so much high- or middle-brow culture is so slack, so sentimental, so insular, so predictable, so ingratiating. Every time someone like Lisa Jardine, head of the Orange Prize jury, makes some uncontroversial remark about preferring American to British writing, they are torn to shreds by the culture vultures whose very certainty about prescribed cultural

values should indicate that it is time for them to cash in their pension schemes. The reaction to *Crozenberg's Crash* was a case in point. The critical language used both to attack and defend this film seemed to belong to another era. Either it was bad because it showed perverted things and therefore the audience would be turned into perverts, or it was good because it was arty, or that great catch-all "disturbing".

Its defenders were keen to tell us that a film about sex and car crashes was not actually erotic but about eroticism. Of course *Crash* is erotic. It has got James Spader in it for a start. The man I sat next to in an empty LA cinema found it so erotic that he masturbated during the ads for hot-dogs, popcorn and insurance policies so Westminster council should also consider banning such arousing material.

Somehow within this critical mêlée a film that is seriously high culture got turned into low culture, its worth delineated by its sexiness. Such arousal can only lead to audience dissatisfaction, one of the points that

similarly divides the world into creeps and arseholes. He is described by Roseanne Barr as a racist, a sexist and a homophobe. He is all these things. He is a sewer through which every prejudice flows. He can also be very funny. I don't think his film is funny because Stern is just too desperate to be liked.

But he has his fans. He "disses" blacks and women on the regular basis and yet during the Bush administration, at the height of its anti-abortion fervour, he advised on air any woman who voted for Bush to put her vagina in an envelope and mail it to the White House, as she was giving the government control of her body.

What saves Stern and Beavis and Butt-head for me is their self-loathing. You laugh and loathe with them and at them. The British bad boys, the *Loaded* lads, the Men Behaving Badly are just too pleased with themselves and think they are doing OK. Stern complains for a long time. Beavis and Butt-head, products of the moronic inferno, have not read Jean Baudrillard on America because they do not read. Yet they are the living embodiment of his pronouncement, "if it is the lack of culture that is original, then it is the lack of culture one should embrace". Beavis and Butt-head, the mutant waste of MTV culture, are actually cartoons of two adolescent boys who have no relationship to anything except TV, videos and each other. Let's not forget that stupidity was the key to *Forrest Gump* and Ronald Reagan's success. Now these

Dumbing down is not so much the responsibility of consumers but a failure of critical will by the sanctimonious guardians of our culture

boys have their own movie and their creators have given full vent to their nihilism.

The worst thing that could possibly happen to them happens: their TV gets stolen. This sucks more than anything has ever sucked before." Their world is severely bipolar. Things either suck or are cool. Their bearded liberal teacher, who strums songs like "Lesbian Seagull", catches them trying to steal a TV from school. He informs them that, "We don't need TV to entertain us". The boys snigger: "He said anus".

Now you don't have to like Beavis and Butt-head just as you don't have to like Howard Stern, who is another American Monster and who doesn't even have the excuse of being a cartoon, but you shouldn't ignore them. Stern's movie *Private Parts* will be released here soon. He is the offensive US DJ who

is a manifestation of ignorance adopted wilfully for pragmatic reasons". The culture of stupidity is a strategic reaction to the complexity of post-modern culture. Its promise is the release from any notion of social responsibility.

That may in itself be a bad thing but it is no less escapist than the romantic dreams of high culture.

It is also more artistic - look how so much modern art is based on stupid ideas. Our reaction to it necessitates a critical language that understands how clever all this stupid stuff is, as well as those who are prepared to stand up for art and culture that is not socially responsible. Instead we are stuck with an anal critical establishment that is so hung up on notions of taste that it doesn't know the difference between what is really cool and what ultimately sucks.

Israel is gripped by the curse of '67

Patrick Cockburn says the poisoned fruits of victory stand in the way of peace

On 5 June 1967 Israeli soldiers entered East Jerusalem and within a few days captured all the land to the west of the Jordan river, as well as the Sinai Peninsula from Egypt and the Golan Heights from Syria. The victories were overwhelming and intoxicating.

For 30 years Israel has been trying to absorb part of its conquests and trade the rest for a lasting peace. Even land captured in the first minutes of the war is proving difficult to digest. Despite the Israeli claim to Jerusalem as its eternal and undivided capital, Israeli taxi drivers still routinely refuse to enter the Palestinian districts of Jerusalem.

This week Israelis are, as usual, celebrating the Six-Day War and the re-unification of Jerusalem. Tens of thousands of people pour through the streets of the Old City, waving the white and blue Israeli flag. But this year the anniversary has a peculiar significance, of which most of the demonstrators will be unaware.

This year's celebration is important because it marks the failure of the most serious attempt by an Israeli government to escape from the legacy of 1967. That could be done only by ending the occupation of the West Bank and Gaza. The Oslo accords of 1993 fell short of what Palestinians wanted but recognised them as a people with rights to their own territory.

Some Israelis always believed that the very extent of their 1967 victory had contained a hidden danger. It had created too many enemies. In the West Bank and Gaza Israel had become a colonial occupying power. Confrontation with the Palestinians

dominated its agenda to the exclusion of almost everything else. Yossi Beilin, the architect of the Oslo accords, wrote: "Thus Israel's sensational victory of 1967 became a curse."

It had another effect, which was underestimated. For some Israelis the Six-Day War was not just a glorious victory, but the voice of God. It was his command to the Jews to reclaim the Land of Israel between the Jordan river and the Mediterranean Sea. Religious extremism bonded with territorial nationalism. Retreat from the land God gave to the Jews was treachery. Inspired by that vision, Yigal Amir, a student of religion, shot dead Yitzhak Rabin, the prime minister, who had been Israeli chief of staff in 1967.

Benjamin Netanyahu, the new Israeli prime minister, chose this year's anniversary of 1967 to unveil his vision of a final settlement with the Palestinians. It shows that Oslo is dead. On offer are four truncated cantons based on Gaza, Hebron, Nablus and Jericho.

Is Mr Netanyahu right to believe that Israel can hold on to most of what it captured 30 years ago? In his books and in his election campaign he said that the way to deal with

Palestinians and Arabs is to stand up to them; lower their expectations and what they will take whatever is on offer. And in the short term there is evidence that he is proving to be right. Despite the furious reaction of Yasser Arafat, the Palestinian leader, to the building of an Israeli settlement for 6,500 people at Har Homa, called Jabal Abu Ghneim by Palestinians, protests have fizzled out. The Arab states have not reacted strongly and the US vetoed two UN resolutions condemning Har Homa.

But in the long term Mr Netanyahu's policy presupposes a permanent confrontation between the 3.25 million Palestinians and 5.5 million Jews living in Israel, Gaza and the

West Bank. And the lesson of the years since 1967 is that Israel's military might is less and less effective in solving its political problems. For this week also marks an Israeli military anniversary which is not being celebrated or even mentioned.

This was the Israeli invasion of Lebanon 15 years ago. On 4 June 1982 the Israeli army crossed the border in the "Peace for Galilee" operation. The aim was to destroy the PLO, drive Syria out of Lebanon and install a pro-Israeli Christian government in Beirut. It failed dismally on all three counts. Nor was that the only failure of military power to produce results. Israel found that military superiority was not

enough to deal with the Palestinian Intifada (uprising) in 1987. Last year the "Grapes of Wrath" operation, the bombardment of south Lebanon, failed to damage the Hezbollah guerrillas.

Arabs often regard Israel as wholly hypocritical in demanding special attention to its security needs, while doing everything to threaten the security of its neighbours. But in fact Israel is less of a regional superpower than it looks. A long-term result of 1967 was to

increase Israeli dependence on the US. The real shift in the Middle East since the Six-Day War is not the growth of Israeli strength so much as the predominance of the US.

At first the Gulf crisis and war merely boosted the chances of a rapprochement between Israel and the Arab states. In Saddam Hussein there was an enemy whom other Arab leaders hated and feared even more than they did Israel. The US also wanted to consolidate its Gulf War alliance by brokering an Arab-Israeli agreement. President Bush in 1991-92 put serious pressure on Israel not to build settlements, and to negotiate with the Palestinians. Unfortunately the US position in the Middle East is now so strong that the absence of an Israeli-Palestinian agreement does not make much difference. Iraq, the only Arab state with oil and a powerful army, remains isolated. President Clinton learnt too well from the fate of Mr Bush in the 1992 election that there was a heavy political price to pay for offending Israel (Jimmy Carter made the same discovery in 1980).

In announcing its peace proposal this week the Israeli government said it was half-way between a full return to the 1967 borders and a total takeover of the Land of Israel. That apparently means returning 40 per cent of the West Bank. Israeli settlements will stay. As a peace proposal it has the disadvantage of not producing peace. The confrontation between Israel and Palestinians on the West Bank and in Gaza which has raged since the Six-Day War will be institutionalised. The curse of Israel's 1967 victory retains its power.



The Wailing Wall: Israel's claim on Jerusalem is belied by realities

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business & city

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Regulator to review funding for Railtrack

Michael Harrison

The rail regulator, John Swift, yesterday launched a fresh attack on Railtrack, criticising its investment record and launching a review of up to £300m of public subsidies the company receives.

The broadside came as Railtrack, which runs the country's rail network, announced a 27 per cent increase in pre-tax profits last year to £346m and mounted a vigorous defence of its £16bn investment programme in new track, signalling and stations.

In a surprise statement, Mr Swift said there was still "a very long way to go" for Railtrack to deliver on its investment obligations. He also announced a review of the money Railtrack receives under its performance incentive regime to establish whether shareholders were benefiting disproportionately. Mr Swift said Railtrack had already made £37m more than was assumed when it was privatised a year ago.

Railtrack shares fell back following Mr Swift's statement on fears the company was facing a much tougher regulatory environment, although they still ended the day 13.5p up at 658p. Earlier John Prescott, the Deputy Prime Minister and Secretary of State for Transport and the Environment, criticised Railtrack's profits, saying "I do not think that is a good deal for the taxpayer."

The company reacted angrily to the twin attack on its profits and investment record. Sir Bob Horton, chairman, said: "I do not think we are making too much money. I think we are being rewarded just about adequately for the capital, both in terms of intellectual capital and physical capital, that we are putting into the business. It is quite unreasonable to expect us to get up and modernise every single station in this country overnight. We are getting on with that as fast as we can."

John Edmonds, chief executive, said later that Railtrack could go to the Monopolies & Mergers Commission or seek a judicial review if the regulator sought to reduce the amount of access charges it received from the passenger franchises.

At issue are the supplementary charges Railtrack is allowed to levy on train operators to cover its costs if its performance falls below set levels and it incurs extra costs because of bad weather. The charges amount to £30m over the six years to 2001. Last year Railtrack received £93m which, after payments to suppliers and provisions for severe weather, netted it a £26m profit.

Mr Edmonds said that if the supplementary charges ceased then the performance review would collapse and Railtrack would have no incentive to improve its efficiency. He also criticised the "smoke and mirrors" that surrounded the regulator under its price control formula.

Railtrack announced its 10,900 staff would each receive £1,000 worth of free shares. Sir Bob said Railtrack directors had received annual bonuses though not the maximum 40 per cent.

Comment, page 23

ment on suggestions the dividend was being rushed out to beat the reduction in ACT expected to be announced in Labour's first Budget on 7 July. "We have consistently returned money to shareholders. Indeed, last year we did a very large share buy-back. So there is no alteration in the pattern," he said. The decision to change the policy on handing back cash from share buy-backs to special dividends was because it had become more tax efficient after the last chancellor's abolition of ACT on buy-backs. It would be "interesting" to see what the Budget contained.

Analysts reacted enthusiastically to the dividend, which, for the first time since the beginning of the policy to pay excess cash back to shareholders, will push Boots into a modest net borrowing position. One observer said: "The response from insti-

tution has been very positive. They're always happy to receive cash. They're very happy this is the third time Boots has handed cash back to shareholders. In this respect, Boots leads the pack among UK companies."

The company played down the job creation moves, which will mainly affect the Boots the Chemist chain. Halfords and Boots Opticians, as in line with levels typical of the past five years. But plans to spend up to £225m on opening 40 stores a year in both the chemists and Halfords businesses appear to represent a step up on last year's opening programme.

News of the jobs and dividend came as Boots unveiled a 12.5 per cent rise in pre-tax profits to £571m in the year to March, including a £34.9m exceptional gain as a result of a VAT refund, profit on last year's disposal of Children's World and gains on

property sales. A 14.3p final dividend raised the total for the year 11 per cent to 20.5p, payable from earnings per share up 20 per cent at 42.9p.

Lord Blyth warned the costs of coping with dual currencies and other matters in the wake of economic and monetary union could amount to some £20m for Boots, around double the level it expects to pay adapting its computers to deal with the date change in 2000, the so-called millennium "time bomb".

Boots said it would launch its Advantage loyalty card nationally later this year, following successful trials in Norwich and Plymouth in which extra sales had covered the additional costs. The card, expected by analysts to be unveiled in September or October, will be the first in the UK to incorporate a "smart" computer chip.

Investment Column, page 25

Boots pays shareholders £400m

Magnus Grimond

Boots, the chemists to car-accessories group, yesterday unveiled a bonanza for both shareholders and future employees with news of a £400m special dividend and plans for the creation of 5,000 jobs over the next three years.

The 42.3p a share payment, which brings to over £1.7bn the amount handed back in dividends and share buy-backs over the past three years, was well received by the stock market. The shares fell just 2.5p to 692p, despite going ex the special dividend immediately.

For tax-exempt institutions, the payment, which will be made on Friday 13 June, will bring an additional windfall of £100m from the advance corporation tax repayable by the Inland Revenue. Lord Blyth, the chief executive, refused to com-

ment on suggestions the dividend was being rushed out to beat the reduction in ACT expected to be announced in Labour's first Budget on 7 July. "We have consistently returned money to shareholders. Indeed, last year we did a very large share buy-back. So there is no alteration in the pattern," he said. The decision to change the policy on handing back cash from share buy-backs to special dividends was because it had become more tax efficient after the last chancellor's abolition of ACT on buy-backs. It would be "interesting" to see what the Budget contained.

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Tesco scraps move into gas and electricity sales

Chris Godsmark
Business Correspondent

Hopes for a flood of new competitors in the emerging domestic energy markets were further dampened yesterday when it emerged that Tesco, the UK's biggest selling supermarket group, had abandoned a move into gas and electricity retailing.

Tesco has given up attending meetings of independent suppliers organised by the watchdog Ofgas since the beginning of the year. The retailer was the only one of the large supermarket chains to join in the meetings of the Domestic Competition Focus Group, which acts as an information exchange for businesses interested in par-

making forecasts with any confidence. A Reuters poll of 21 economists showed a narrow majority anticipated a rate increase. Seven of the nine members were at the meeting. Pictured are (left to right, standing) Sir Alan Budd, Ian Plenderleath and Charles Goodhart, and (front row, left to right) Howard Davies, Deputy Governor; Eddie George, Governor, and Mervyn King. Photograph: FT

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ticipating in the emerging domestic market.

Tesco had a small team of staff working on the project, led by Steve Mcardle, a marketing manager in its Clubcard department.

Earlier this week Southern Electric, the last remaining independent regional electricity company, said it also understood the supermarket groups had abandoned plans to sell gas and electricity.

A spokesman declined to comment, apart from confirming the company had "no plans at present" to sell energy.

Sainsbury had already called off discussions with independent gas companies earlier this year, apparently after fears that its brand might be damaged by re-

tailers of the marketing problems in domestic gas competition.

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Retail figures point to consumer slowdown.

Michael Harrison

Evidence emerged yesterday of a slowdown in consumer demand last month as both high street sales and purchases of new cars failed to live up to expectations.

The Confederation of British Industry said the annual growth in retail sales in May was the lowest since October 1995. Only half those retailers that had been expecting an increase in sales actually reported one.

Meanwhile the Society of Motor Manufacturers and Traders reported an increase in new car sales last month of just 2.5 per cent compared with an overall rise of 5 per cent for the first five months of the year.

This evidence of a consumer slowdown may leave the Bank of England's Monetary Policy Committee with a finely balanced decision on whether or not to raise interest rates. The committee concludes its first ever meeting at lunchtime today.

The Bank's Governor, Eddie George, spoke earlier this week of his concern at the money flooding into the economy from the £30bn building society windfalls. The comment was taken as an indication in the markets that he was in favour of an increase in interest rates.

The consensus among City economists remains that the six-strong committee will vote to raise base rates by a quarter point to 6.5 per cent. Alternatively they may wait to see the contents of Chancellor Gordon Brown's first Budget on 2 July.

According to the CBI's latest distributive trades survey, 46 per cent of retailers reported an increase in sales in May while 25 per cent reported a decline. The balance of 21 per cent compared with 42 per cent who have been expecting an improvement.

Alastair Eperon, chairman of the CBI's distributive trades panel, said: "The slowdown in sales growth reported in May is disappointing for retailers."

However, he said that the slight easing in annual price increases also detected in the survey was good news for inflation.

Car sales reached 169,886 in May compared with 165,685 in the same month last year. Imports made up 63.5 per cent of total sales. Roger King of the SMMT said the modest sales growth showed that the market remained tough.

Ford was the market leader with a 20 per cent share of sales, while Vauxhall was second with 13 per cent. Rover remained in third place as its market share slipped to below 10 per cent.

Glass maker to cut 220 factories

David Ahmed

SIB reforms 'will take years'

Tom Stevenson
Financial Editor

The reform of City regulation announced last month by Gordon Brown may take up to three years to implement, Treasury minister Helen Liddell admitted yesterday. In her first speech on the proposed changes to financial supervision she warned that reform would be "long and complex" and said the planned integration of the current front-line regulators into a new super-SIB might not happen until early 2000.

Setting out a timetable for the Government's planned revamp, she told a City audience that the first step in the process - the Bank of England bill that will shift banking supervision to an enhanced SIB (Securities and

Investments Board) - would be put before Parliament after the summer recess. That bill, which will also reform the structure of the Bank's governing Court and set up the new monetary policy committee tasked with setting interest rates, is expected to receive Royal Assent at the beginning of 1998.

Mrs Liddell pulled no punches in her assessment of the current state of regulation, which she said was "not delivering the standard of supervision and investor protection that we all have a right to expect."

She added: "Accountability is poor. Investors cannot help but be confused by the sheer complexity of the system. Reform is long overdue to simplify the delivery of financial services regulation. Then they will have

one else to blame but themselves. Together we have the opportunity to put in place the sort of regulation that will meet the industry and consumers' needs."

The City was also called on to play its part in the success of an enlarged SIB by putting forward its "smartest and strongest" managers for appointment to the regulator, a practice which Mrs Liddell said was routine in the US. In what was seen as a thinly veiled reference to the collapse of Barings last year, she said the key to effective regulation was the attitude of management.

She said: "Management needs to know its business, to understand the risks to which it is exposed. Unfortunately performance in this area sometimes falls short."

Stena Line and P&O, the cross-channel ferry operators, may have to meet tough conditions by the start of the peak summer season. Together Stena and P&O would control about 40 per cent of the tourist vehicle market, putting the venture on a par with Eurotunnel, the Channel tunnel operator, in terms of market share.

The joint venture would maintain services on the Dover-Zeebrugge route for freight as well as Stena's Newhaven to Dieppe line. Most of the focus, however, will be on the Dover to Calais operation where six multi-purpose vessels will run departures every 45 minutes.

Brussels received notification of the ferry alliance last October and has since received comments from "wide-ranging sources", officials said. They stressed that neither the Commission nor the Monopolies & Mergers Commission had completed their inquiries.

Meanwhile, ferry operators protested yesterday that the EU's planned abolition of duty-free sales from June 1999 would cost 50,000 jobs. The European Shipowners' Association said ferry routes faced closure and ticket prices would be driven up by the move.

EC takes tough stance on ferry joint venture

Katherine Butler
Brussels

known, could be asked to operate independently of the two parent companies.

The companies are hoping to have their Dover to Calais passenger service up and running by the start of the peak summer season. Together Stena and P&O would control about 40 per cent of the tourist vehicle market, putting the venture on a par with Eurotunnel, the Channel tunnel operator, in terms of market share.

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Helen Liddell: Condemned current City regulation

STOCK MARKETS									
FTSE 100		Dow Jones		Nikkei		Euro Stoxx 50		FTSE All-Share	
Index	Close	Day's change	Change (%)	1996/97 High	1996/97 Low	1996/97 High	1996/97 Low	1996/97 High	1996/97 Low
FTSE 100	4,578.20	+19.10	+0.4	4,693.90	4,056.60	3,59			
FTSE 250	4,465.90	-1.90	-0.0	4,729.40	4,462.00	3,65			
FTSE 350	2,220.30	+7.30	+0.3	2,272.10	2,017.90	3,60			
FTSE Small Cap	2,277.24	-0.51	-0.0	2,374.20	2,179.29	3,09			
FTSE All-Share	2,161.02	+6.61	+0.3	2,230.99	1,989.78	3,56			
New York	7,322.89	+53.23	+0.7	7,983.41	5,922.94	1,73			
Tokyo	20,488.15	+123.41	+0.6	20					

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COMMENT

'Labour is already planning to hit the utilities hard with its windfall levy, a retrospective and selective tax which in many parts of the world, including the United States, would be unconstitutional and therefore illegal. Now it seems to want to stop them making any money at all'

Labour's pick and mix approach doesn't work

The new Government is developing a dangerous schizophrenic attitude towards business and the people who run it. In its body language and utterances, New Labour has already begun the process of separating them into "goodies" and "baddies", the "ins" and the "outs", and while some of this is simply a reflection of the colour of your politics, this is rarely wholly or even largely the deciding factor.

On the one hand ministers display a touchingly naive, almost awe-struck admiration for the "can do" attributes of our more successful businesses. "Do come in and show us how to do it", they are saying to the open minded of them. "You can be our partners". So in comes David Simon of BP, Martin Taylor of Barclays, and most bizarrely of all, Peter Davis of the PTA. But you cannot keep old Labour in its cage for ever, and every now and again out it comes growling and angry, fulminating against fat cat capitalists.

And so it was yesterday as John Prescott went on the warpath about what was in truth a not particularly shocking rise in Railtrack profits. This is our money, Mr Prescott insisted, it belongs to the tax payer, and even if we no longer own this wretched company, we as sure as hell are going to control it. The distinction Labour makes when its leaders rant and rave in this way is between businesses which are essentially public services and the rest. Privatised utilities bad, everything else good, is what Mr Prescott would say if pushed.

But although this is all good populist stuff, it is actually a false distinction as well as a dangerous one. If the lottery and the public services are to be banned from making money it won't be long before the argument is extended to other businesses with anything approaching a dominant market position, and from there to business more generally. Labour is already planning to hit the utilities hard with its windfall levy, a retrospective and selective tax which in many other parts of the world including the United States would be unconstitutional and therefore illegal. Now it seems to want to stop them making any money at all.

The politician speaks and the regulator delivers. John Swift the rail regulator, yesterday announced that he is going to rewrite Railtrack's performance regime, because he believes that a disproportionate amount of Railtrack's direct government subsidy is going to shareholders.

Meanwhile, over at Ofwat, Ian Byatt has deplored his real rises in dividends saying he cannot see why water shareholders need such a big return. What world does Mr Byatt think City investors inhabit that they should want to put their money into something where the spoils are distributed according to need? The workers Republic of China? Exaggeration perhaps, but the City can expect a lot more where that came from right across the utilities over the months ahead.

Labour is in danger of adopting a pick and mix approach to business - socialism for the

utilities, and anything else the masses take a dislike to, and capitalism for the rest. Ultimately this is bad politics and economics, as well as bad in principle, for the company not allowed to make money for itself rarely tries to make savings for its customers either. There are plenty of good businesses and plenty of bad ones but not because some are saintly and some are evil. Rather it is because some are good at what they do and some are bad at it. The only way anyone is going to find out which is which is by letting the market decide. Unavoidably it tends to do this on the basis of how much money they make, for themselves and their shareholders.

that there are rather more urgent and pressing matters to correct in the single market than getting rid of currency fluctuations.

Companies still face considerable regulatory roadblocks to their right to operate in other member states, there's a way to go on harmonisation across a wide range of different industries and standards and there has been an object failure to achieve a single European market in a number of vital supply industries, notably energy. Perhaps most important of all, free movement of labour remains a distant dream. In these circumstances the present dash to monetary union looks rather like putting the cart before the horse.

By appointing David Simon, who was a member of this enquiry, minister for competitiveness in Europe, the new Government has signalled its determination to push the process forward with dispatch. In the end, however, our main European partners are probably not going to need too much prodding. Six thousand Daimler-Benz and BMW jobs lost from Germany to the US is a more powerful incentive to liberalisation and deregulation in Germany than any number of directives from Brussels.

duck difficult and controversial issues. So why the studied silence yesterday on the speed with which Boots is paying its £400m special dividend, the latest in a line of bumper paybacks to shareholders of Boots amounting to over £1.7bn since November 1994.

Could it be anything to do with the approach of Labour's first Budget, in which many are expecting the Chancellor drastically to reduce or abolish tax credits on dividends? Surely not. But then again why else would Boots want to exhaust its cash pile and some with such indecent haste. The extra £100m tax exempt institutions will be able to reclaim in ACT 1 is a feast which may soon not be available if the Chancellor, Gordon Brown, cuts back on this lucrative City perk.

Boots appears to be the only major company so far to attempt to outwit Mr Brown's supposed plans in this way. Others have certainly looked at a similar acceleration of dividend payments, but quickly rejected the idea. The political sensitivity behind any attempt to beat the tax man are clear.

Boots has certainly won over the City by trying it on, whether it picks up Brownie points with Labour is another matter. The announcement of 5,000 new jobs must go some way to salvaging its position with the new Government, but ministers won't much like this transparently sneaky attempt to slip through the fence before the gates are finally shut.

BT residential customers lose despite competition

Chris Godsmark
Business Correspondent

The vast majority of residential telephone customers have seen only a tiny fraction of the savings from competition and regulation compared with high spending households and business, the watchdog, Oftel, admitted yesterday.

Don Crickshank, the telephone regulator, also revealed yesterday that British Telecom had put long-awaited forward plans to link up schools to the so-called information superhighway, though he dismissed any suggestion that the move was linked to the controversial "deal" with Labour to lift the ban on the group broadcasting entertainment down its phone network.

The figures from Oftel showed the four-year price regime, which finishes next month, gave almost all the savings to just the top 20 per cent of residential customers spending an average of £130 a quarter on calls. "It shows how relatively little low-spending customers have benefited... We're just being honest," Mr Crickshank said.

While the top 20 per cent of households saw bills fall by 19.7 per cent in cash terms between 1991 and 1997, the rest of the 22 million homes, which spend an average of £44 a quarter on calls, saw bills drop by just 1.1 per cent. The lowest spenders in the bottom 20 per cent of homes, spending around £27 a quarter, saw the least benefit

from price controls, with bills going up by more than 15 per cent because of rises in line rental charges. Some 2.5 million members of BT's light user discount scheme saw reductions averaging 20.5 per cent.

Though the four-year price regime cut overall bills by 7.5 per cent below inflation, it was focused mainly on businesses and high spending households. Average bills had dropped by 47 per cent in real terms since 1991. The new price regime, starting in August, excludes almost all business customers and should focus price cuts on lower spenders.

BT declined to give details of the group's offer to link schools to the superhighway, insisting the proposals were commercially confidential. They are similar to a scheme begun by the cable companies which provide free initial connections to high capacity information links and fixed annual fees of between £100 and £600.

The BT plan would connect most schools using ISDN digital technology with its existing infrastructure, rather than providing direct fibre-optic cable links. ISDN connections would allow several computers internet access simultaneously.

Mr Crickshank and BT disagreed yesterday about the origins of the initiative, with Oftel claiming it had started the project. "BT has to do this. It is not a matter of choice." But a BT spokeswoman said the schools connections were merely an expansion of its existing strategy.



Phone finding: Ofwat has admitted that the majority of BT's 22 million home users, spending an average of £44 a quarter on calls, saw bills drop by just 1.1 per cent

Glass maker to cut 220 factories

Sameena Ahmad

Paolo Scaroni, Pilkington's chief executive of two weeks, stunned the City yesterday by announcing a radical shift in strategy that would see the group withdraw from much of its downstream glass-making operations. These businesses, which add value to ordinary sheet glass by toughening or shaping it, represent around a quarter of the group's total £2.9bn of revenues.

One analyst, who did not want to be named, said: "We were expecting something radical from Scaroni, but not this. It is a complete reversal of policy."

Mr Scaroni, who was Pilkington's head of automotive glass and replaced Roger Leverton in a boardroom coup in May, said that he was looking at closing or selling the group's 220 European-based factories involved in downstream operations: "I don't know which ones or how many yet. It depends on their share of the market and how profitable they are."

The group also said it would accelerate its cost cutting programme, currently £20m a year, over the next three years and wanted to cut out unnecessary management layers.

Mr Scaroni said: "I want Pilkington to become the most efficient glass manufacturer in the world. Prices are something we can do very little about. The only variable under our control are costs."

Analysts' responses were mixed: "We are more confused today than we were yesterday. The whole restructuring is too complex. I'm not sure Scaroni knows what he can do," said one.

Another said: "By reducing the downstream side, they will lose market share and have to cut back capacity at their float glass business. This could cost them a lot in provisions. And the cost of exit from the downstream factories could be high if the group can't sell them." However, others were impressed with Mr Scaroni's track record and said the group could recover in two years.

Mr Scaroni's comments came as the group revealed an £80m fall in pre-tax profits in the year to March to £132m.

Investment Column, page 25

Airline chiefs execute a belly-flop landing

David Usborne
Washington

David Usborne reports on a bout of jousting in Washington in which British Airways and American Airlines fared badly

the unhappy pair found themselves the targets of scepticism.

In a committee room packed to capacity, Messrs Aylmer and Cranford were seated at one end of a narrow table occupied at the other end by three of their most dangerous opponents - Stephen Wolf of US Airways, Richard Branson of Virgin Atlantic and Sir Freddie Laker.

The first to speak, Mr Aylmer put his foot in it at once. This was his first appearance before Congress of any official from British Airways or from its ancestor companies. If he thought the senators would be impressed, he was wrong. The remark seemed ill-

judged given that BA had been asked to testify at a previous hearing on the American deal and had failed to show up.

And then there were the charts. The Bobs had a stack of them to match their history of indigestible statistics. The point they were trying to make was fair. Consider things like city-pair numbers, market shares, revenue generation and so forth and the BA-AA deal looks small fry compared with some other alliances that have won approval.

But senators do not care much for statistics. They like a bit of cut and thrust. They like sarcasm and witty one-liners that Mr Branson and Sir Fred-

die had in jumbo-jet loads. And underdogs will always be more attractive than industry captains with reputations for arrogance.

Sir Freddie said: "Mortals should not be allowed to have this amount of power." With those words he got to the political nub that senators can appreciate.

The senators were also given a clear lesson in slots - the rights that airlines must acquire to be able to take off and land at Heathrow Airport. Mr Aylmer was rattled when Senator Wendell Ford of Kentucky suggested that BA and AA "ante up" exactly the same number of slots as they have at US airports to American carriers wanting to

serve London. "I think that would be unprecedented," Mr Aylmer stammered. "Well," Senator Ford shot back. "I guess we are going to be doing some things we haven't done before."

It was when Mr Aylmer suggested that "anyone who wants to get slots [at Heathrow] can do so," that Mr Branson erupted. Grabbing at his hair in theatrical exasperation, he blurted out of turn: "It's incredible to hear this man being able to look you in the eye and say this."

Next week another Senate committee concerned with anti-trust issues also tackles the BA-AA deal. A smiling Mr Branson plans to be there. Whether Mr Aylmer will savour making BA's second congressional appearance in history must be more doubtful.



Michael Harrison looks at New Labour's latest recruits from industry and finance

The businessmen who changed their spots

The chief executive of Prudential, Sir Peter Davis, yesterday became the latest senior businessman to be drafted in by Labour to help with the Government's legislative programme.

Sir Peter has been appointed chairman of the advisory task force that will develop the welfare-to-work scheme designed to get 250,000 long-term unemployed youngsters into jobs.

The Chancellor Gordon Brown, chairman of the Cabinet's welfare-to-work committee, said the £612,000-a-year head of Prudential had the perfect blend of skills and experience to turn Labour's plans into reality.

Others, however, voiced some surprise at the choice. Although Sir Peter has been chairman of the Government's Basic Skills Agency for the last eight years, Prudential, Britain's biggest insurance company, is also heavily embroiled in the pensions mis-selling scandal.

Sir Peter was also one of the group of 42 businessmen who wrote famously to the *Times* before the 1992 election urging the country not to vote Labour, warning: "The spirit of enterprise is not a hardy plant. Nor is it yet so firmly established that it can survive in a hostile climate."

But then a great many other

businessmen have also changed their spots since 1992. The Amstrad chairman, Alan Sugar, another signatory to that letter, has signed up to lecture young people on business on behalf of Margaret Beckett, President of the Board of Trade. He is in good company at the DTL. David Simon, the former BP chairman, has been made a minister in the department with responsibility for Europe and competitiveness while Lord Holford, a long-time Labour supporter is acting as special adviser to Mrs Beckett.

Other business leaders co-opted to help Labour include the chief executive of Barclays Bank, Martin Taylor, who is chairing the Treasury's pensions and benefits review, and Malcolm Bates, former deputy chairman of GEC and now chairman of the Pearl insurance group, who is chairing a review of the Private Finance Initiative for the Paymaster General, Geoffrey Robinson.

Other business leaders with an entree to Downing Street now that Tony Blair is its occupant include Gerry Robinson, the chairman of Granada, Bob Aylmer, chief executive of British Airways, and Virgin's Richard Branson. Mr Aylmer is a close friend of the Home Secretary, Jack Straw. The two men shared a 50th birthday party.

Among those definitely out of the loop are Sir Desmond Pitcher, chairman of United Utilities, who prided himself on his close contacts with the previous government, and Sir Stanley Kalms, chairman of Dixons and a well-known scourge of socialism, even of the pale pink Blair variety.

Also persona non grata are Ed Wallis, chairman of PowerGen, who has lobbied harder than most against the windfall tax, and John Neil, chief executive of Unipart, who backed a campaign before the election to boost the image of privatised companies.

Nor will Lord Hanson and Sir Rocco Forte be found on any Labour guest list but neither man probably much cares.

Somewhere in the middle are floating voters whose affiliations are uncertain. Rupert Murdoch's *Sun* backed Blair at the polls but is the News Corp chairman a personal convert to Labour?

Sir Ian Vallance, chairman of BT, voted Labour but his support has been tempered by the prospect of being clobbered by the windfall tax. Sir Dick Evans, chief executive of British Aerospace, likes Labour's support for Eurofighter but not its promise to crack down on arms sales.

The pending sale of Imperial Chemical Industries' 62.4 per cent stake in ICI Australia moved a step closer following agreement being reached on commercial arrangements between the two companies. "The completion of negotiations and determination of commercial arrangements between ICI and ICI Australia represents a positive result for both companies. It opens the way for the sale of ICI's shareholding in ICI Australia and provides the platform for the development of ICI Australia," the company said.

The agreement provides that ICI Australia retain exclusive rights to use the ICI roundel (registered trademark) and the "ICI" house mark in Australia, New Zealand and Papua New Guinea for one year. ICI Australia will own the key brands in the paint business in Australia and New Zealand, including the Dulux brand. ICI Australia will be able to exploit opportunities in paint markets internationally.

ICI closer to selling Australian stake

A pending sale of Imperial Chemical Industries' 62.4 per cent stake in ICI Australia moved a step closer following agreement being reached on commercial arrangements between the two companies. "The completion of negotiations and determination of commercial arrangements between ICI and ICI Australia represents a positive result for both companies. It opens the way for the sale of ICI's shareholding in ICI Australia and provides the platform for the development of ICI Australia," the company said.

The agreement provides that ICI Australia retain exclusive rights to use the ICI roundel (registered trademark) and the "ICI" house mark in Australia, New Zealand and Papua New Guinea for one year. ICI Australia will own the key brands in the paint business in Australia and New Zealand, including the Dulux brand. ICI Australia will be able to exploit opportunities in paint markets internationally.

The company said the money raised would provide working capital to support future growth and turnover, allow the repayment of borrowings and provide the flexibility to finance acquisitions. In the year to 31 August 1996 it had sales of £15.2m and pre profit of £252,000. For the first half of 1996/97 turnover was up 13.2 per cent at £10.1m and profits after tax were ahead 53.1 per cent to £268,000.

SBS Group plans to float on AIM

SBS Group, the information technology recruitment agency, is making a £1.2m placing of shares and a flotation on the Alternative Investment Market. It is placing 15 million shares with institutional and other investors at 100p each, giving the company a market value of around £7m. Approximately 21.5 per cent of the company's share capital will be held by external investors. The company said the money raised would provide working capital to support future growth and turnover, allow the repayment of borrowings and provide the flexibility to finance acquisitions. In the year to 31 August 1996 it had sales of £15.2m and pre profit of £252,000. For the first half of 1996/97 turnover was up 13.2 per cent at £10.1m and profits after tax were ahead 53.1 per cent to £268,000.

Cater shares jump after bid talks revelation

Tom Stevenson
Financial Editor

Shares in Cater Allen jumped 27 per cent to 562.5p after the small merchant bank said it was in talks which might lead to a bid. Analysts said talks were at a fairly advanced stage and expected an announcement within a few weeks.

Sources close to the former discount house said a deal had been in the offing for a while, following a long slide in Cater's share price since it peaked at 630p at the beginning of 1994. The identity of the bidder remains under wraps, but analysts said yesterday it was probably a British bank keen to buy Cater's knowledge of the high-volume, low-margin short-term money markets.

With a net asset value of 340p, any bid is thought unlikely to exceed about 600p a share. Market speculation yesterday focused on Close Brothers or Schwab, although neither was thought to be able to provide the balance sheet strength that was probably the attraction of any deal to Cater. The bank has made it clear that discussions are over a recommended bid.

A takeover would put an end to Cater Allen's transformation from old-style discount house to a specialist small bank engaged in a variety of disciplines. The bank's interests range from execution-only stockbroker City Deal, which offers small investors trades as

cheaply as 5p a deal, to retail banking and fund management.

The main thrust of Cater's expansion has been out of wholesale and into retail financial operations, where James Barclay, the bank's chairman, recently said it was going "flat out". Like many banks, Cater has been keen to expand its fund management operations, which in the past decade have provided steadier profits than more volatile broking activities.

Cater Allen has struggled in recent months. Last November it announced a 40 per cent slide in pre-tax profits for the half-year to October to £5.6m. Mr Barclay blamed a wrong call on the previous month's interest rate rise and said sterling money markets had been the toughest in years.

Its execution-only stockbroking business had also suffered from the introduction of Crest, the electronic share settlement system, which pushed it into the red last summer. It had, however, been popular with investors, winning awards for its service and pulling in up to 1,000 new clients a week for its no-frills stockbroking offer.

A bid for Cater Allen would be the latest in a string of deals which have pushed almost all the City's independent banks into the hands of well-heeled institutions, mainly foreign banks. Venerable City names such as SG Warburg and Kleinwort Benson have fallen to European buyers, leaving only a handful of independent players.

Lasmo pays £283m for Venezuelan oilfields

Chris Godsmark
Business Correspondent

Lasmo, the UK's second largest independent oil exploration group, has embarked on its biggest ever expansion strategy and the most ambitious spending spree since its ill-judged £1bn takeover of rival Ultrazone six years ago.

The group is paying \$453m (£283m) in cash, by far its biggest production investment to date, to take over a large oil concession in north-east Venezuela, after beating off competition from operators in Argentina and China. The 20-year contract will also involve a further \$750m of investment paid in the first five years of operations, which will raise Lasmo's forecast production by 25 per cent to 250,000 barrels a day by 2000.

The news gave a further boost to Lasmo's share price, which has already been lifted this year by

news of a potentially lucrative gas find in Pakistan. The shares rose 11p to 259p, just short of their 12-month peak of 262.5p.

The plan is to substantially raise production capacity in the Dacico area in Venezuela, which includes three fields developed since the 1940s. The aggressive strategy to rehabilitate existing fields is a departure for Lasmo which has been better known for drilling in newly emerging areas like Algeria.

The group said seismic tests had shown additional oil to that uncovered by the existing state operator, Corporen. No significant test had been carried out since the 1950s.

The \$453m up-front investment would be paid on 1 August and would raise Lasmo's gearing levels from 27 per cent to around 50 per cent. Lasmo denied it was paying too much for the concession. The nearest bidder, from Argentina, had offered \$360m less for the contract

while the Chinese National Petroleum Corporation made a bid of \$325m.

Joe Darby, chief executive said: "We certainly don't think we are over-paying. In fact we could have paid more. It's enormous and 70 per cent of the block remains unexplored."

Mr Darby also dismissed suggestions that the investment was an attempt in head off a potential takeover approach from a rival oil group. "We are not focused on whether we're vulnerable as a takeover candidate. This is purely to add value for shareholders. Goote are the days when we were concerned at being taken over."

Mr Darby said further expansion plans were being considered in North Africa and Pakistan. Existing activities have developed focus on Algeria's deep water fields to the west of the Shetlands, the Apennine mountains in Italy and a new partnership in Kuwait.

Hopkinsons Group has sold the valve business of its Bryan Donkin engineering division to Aquas-Gas group for £2.55m. The book value of the assets being sold is £2.17m. In the year to 31 January the valve business made a pre-tax profit of £191,000 on turnover of £5.07m.

Benchmark spends £120m on properties

Cathy Newman

Cable & Wireless Communications, the newly formed cable TV and telecoms conglomerate, has appointed an executive to take control of the company's relationship with broadcasters.

Peter Howard, marketing and programming director at Videotron, has taken on a similar role at CWC. Mr Howard officially becomes director of content and programming at CWC, with responsibilities for buying channels to transmit to cable subscribers.

Graham Wallace, chief executive, said Mr Howard would report directly to him, and added: "He's going to handle our relationship with Sky and other programme providers."

Mr Howard's role will be increasingly important as CWC gears up for the launch of digital cable television either later this year or at the beginning of 1998. Digital compression will offer consumers hundreds more channels.

CWC is the product of last year's merger of Cable & Wireless' Mercury subsidiary with Bell three cable operators, Bell Cablemedia, Nynex Cablecomms and Videotron.

CWC, which floated on the stock market in April, is currently in the throes of a process of rationalisation which will lead to 500 job losses. Staff have been offered loyalty bonuses to stay until the reorganisation is complete.

The news, which took the value of Benchmark's portfolio to £330m, moved the company closer to its stated aim of having a portfolio worth £500m by the year 2001.

Benchmark bought 11 properties from Friends Provident for £82m, and a £3m West End location, Wool House, from Chelsfield.

Mr Wong said the company had been "pointed in the direction" of the Chelsfield acquisition. Planning permission at Wool House has already been obtained, and work is to begin shortly on 97,750 square feet of offices, and a smaller area of residential developments.

Benchmark declared a

maiden dividend of 3p a share for the year to the end of June this year, instead of a final dividend at the end of the year. As a result of the deals Benchmark would be taking on another three senior managers, Mr Wong said.

The Friends Provident deal

on properties in central London and Leadenhall in the City followed talks since last October, when FP sold a central London portfolio to Benchmark for £13m, in return for a 35 per cent stake in the company. The move transformed Benchmark overnight from a £3m tiddler into a business with a market worth of £100m. The company was last night valued at £147m. Shares jumped 4p to 244p yesterday.

Benchmark will undertake office refurbishments of the central London sites formerly owned by FP, and has applied for planning permission to create 22,000 square feet of offices in the Leadenhall location.

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German growth picks up

Imre Karacs
Bonn

The German economy has started to grow again, but the expansion appears too weak to make an impact on dole queues or the government's budget deficit. Figures issued yesterday by the Bundesbank showed that the economy expanded in the first quarter of this year by 0.4 per cent compared with the last three months of 1996.

The Federal Statistics Office reported that year-on-year growth stood at 1.4 per cent. This contradicts pessimistic forecasts earlier this year, which had anticipated a slight downturn following the extremely cold weather in January.

Economic activity in the first

quarter was weighed down by a slump in the construction sector, and there was virtually no change in the consumer market. Unemployment fears and increased social security contributions kept private consumption down.

There were, however, signs of a pick-up in the corporate sector, where investment in equipment rose for the second quarter in succession. Business confidence was boosted by the export boom, attributed to a weak mark and rising demand in foreign markets. In comparison with the previous year, exports grew by 6.8 per cent between January and March.

Statistics for March and April orders, published by the Economy Ministry yesterday, confirmed that the upswing was

gathering strength. Both domestic and foreign orders grew by an unexpectedly strong 3 per cent in April, while contracts for domestic capital goods increased by 2.1 per cent. Demand for goods made in the east was up by 9 per cent. These are the first indications that growth is no longer relying on exports alone.

Gunter Riedt, the Economics Minister, seized on the statistics as evidence that Germany had resumed its competitiveness, and suggested that an improvement in the labour market was just around the corner.

Despite his optimism, however, the latest figures hold out little hope for the 4.2 million unemployed. Due to a 2.9 per cent increase in productivity, more than half a million jobs disappeared in the first

quarter. Official statistics on the latest unemployment figures are expected to appear today, but persistent fears foreshadow another disappointment. Although the unadjusted figure fell in May, seasonally adjusted joblessness in May is expected to be above last year's level.

Nor is the better economic climate likely to help the government meet the Maastricht criteria for monetary union. Even at the official forecast of 2.5 per cent growth this year, the deficit is projected to be up to half a per cent above the permitted limit of 3 per cent.

Despite the latest improvements, most institutes do not expect growth to exceed 2 per cent this year.

£50m to spend at Powell Duffryn

Cathy Newman

Powell Duffryn, the ports to engineering group, is to go on the acquisition trail with around £50m in cash once it completes the disposal of some of its non-core businesses.

The company could gain up to £25m from the disposal of the fuel distribution division and four other businesses, which include a rolling stock operation and a software subsidiary.

Barry Hartiss, Powell Duffryn's chief executive, said he was talking to potential bidders but would not be drawn on a timetable.

Together with the £40.7m raised from disposals since the end of March last year, the group would have in excess of £50m to devote to investment and acquisitions in the two core operations, engineering and ports.

Mr Hartiss said it would be difficult to acquire in the ports sector as most of the main ports were in pic hands. He added that he would be looking at further opportunities in the engineering sector.

Foreign Exchange Rates

Sterling		Dollar		D-Mark
Country	Spot	1 month	3 months	Spot
US	163.96	1.41	1.35	1000
Canada	224.35	1.55	1.50	161.73
Germany	219.97	79.73	241.23	127.95
France	95.125	250.24	736.76	583.95
Japan	27.715	20.15	20.05	162.55
ECU	144.62	28.25	28.83	127.81
Belgium	58.184	16.13	16.04	50.44
Denmark	10.725	88.60	88.60	55.67
Netherlands	10.990	3.2	2.6	14.840
Norway	118.87	330.28	350.85	185.16
Spain	1.287	24.01	21.11	14.904
Sweden	23.603	97.90	221.29	14.472
Australia	214.36	9.3	30.20	13.415
Hong Kong	12.093	8.0	19.45	12.748
New Zealand	2.2765	2.5	2.4566	7.9
Saudi Arabia	61.67	0.0	0.0	37.505
Singapore	2.235	0.1	0.0	14.222

Forward rates quoted high to low at a discount; subtract from spot rate

Rate quoted low to high at a premium; add to spot rate

*Dollar rates quoted as reciprocals.

For the latest foreign exchange rates call 0851 123 3033.

Calls cost 50p per minute.

Other Spot Rates

Country Sterling Dollar Country Sterling Dollar

Argentina 163.12 0.9398

Australia 1.0124 1.2524

Brazil 1.7305 1.0730

China 13.5277 8.2921

Egypt 5.5448 3.4008

Finland 1.0500 0.8068

France 33.6068 20.0000

Germany 44.8407 24.8600

India 55.3373 32.7070

Kuwait 0.4942 0.3023

Nigeria 1.2823 0.8520

Spain 19.2900 12.5000

Austria 5.5200 4.0392

UK 1.7322 1.4925

US 1.7322 1.4925

Other rates quoted as reciprocals.

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Dai-Ichi Kangyo chiefs arrested

Three executives and a former executive of Dai-Ichi Kangyo Bank were arrested yesterday on suspicion that they loaned £15m to a reputed racketeer, a large amount of which was not backed by collateral.

The arrests are the first involving the bank, the oldest and third-biggest in Japan, and are part of the escalating scandal involving Nomura Securities. The president and chairman of the bank, who were not arrested, are to resign.

Ryuichi Koike, the reputed racketeer, allegedly used some of the loans to buy 300,000 shares in Nomura, prosecutors said. He is then said to have used his position as a shareholder to extort £264,000 from Nomura, Japan's and the world's largest brokerage.

The arrests yesterday came just 24 hours after prosecutors indicted Nomura and two former executives, saying they illegally compensated Mr Koike for trading losses, a crime under Japanese securities laws.

The four bankers arrested yesterday were Tatsuo Shibusawa, director of the general affairs department, the section of

Japanese companies that usually deals with corporate extortions; Hiroshi Inotsume, a former managing director and former head of general affairs, who has left the bank; Takumi Manabe, deputy manager of general affairs; and Michiyoshi Kusajima, a former deputy manager of general affairs.

Tokyo prosecutors declined to comment on the arrests, which were described by a spokesman at the Bank of Japan as "extremely regretful".

Dai-Ichi Kangyo loaned the money to Kojin Building, a Tokyo-based real estate company owned by Mr Koike's younger brother, Yoshimori, the bank's president, Katsuhiko Kondo, said in unsworn testimony before the lower house budget committee yesterday. The bank made the loans to what it thought was a legitimate business and it did not know of the connection to Mr Koike, added Mr Kondo, who said that as much as £46m of the money was unrecoverable.

Dai-Ichi's chairman, Tadashi Okuda, and Mr Kondo will resign at the company's annual meeting on 27 June.

Autif chairman leads the way... 16,000 feet to Everest base camp

PEOPLE & BUSINESS



Lewis McNaught: Found new heights to scale after his South Pole expedition

At this precise moment the intrepid Mr McNaught is sailing the Channel on the QEII with 800 independent financial advisers on the annual PIMS cruise, but I understand he is planning to take a Gartmore party with him next year and hopes to get them at least as far as the base camp, which is over 16,000 feet up the mountain. The thought has caused a shiver of excitement among the IFA community and even some financial journalists are thought to have started deep-breathing exercises in the hope of getting on the trip.

McNaught himself is something of an all-rounder as well as a high achiever. Apart from his commitment to roughing it in cold places he has a degree in Archaeology and Ancient History, spent five years as an Egyptologist at the British Museum and was president of Apsley Fine Art Consultants, a subsidiary of a New York broking house advising clients on fine art investments before joining Gartmore 14 years ago.

The new head of Salomon Brothers European Mergers and Acquisitions division based in London is Philip Keevil, a 50-year-old Brit who went to Harvard Business School in 1973, married an American and decided to make his career in New York. He was a partner of Lazard Frères and then managed Warburg's North American investment banking business before joining Salomon Brothers. He was part of the team that bought Jaguar for Ford, Pilbury for Grand Met and Brooks Bros for M&S, and most recently has specialised in energy acquisitions for US utilities.

Salomon is best known for its "offensive" skills in contrast to, say, Goldman Sachs, who are best known for their defensive expertise. Mr Keevil expects cross border M&A business to grow, with the main emphasis still on US acquisitions world-wide, although European companies are taking more of an interest in the US, and intra-European mergers are certain to multiply as the growth of European pension funds puts increasing pressure on companies to perform and merge.

He will fly to London on Tuesday, his 25th wedding anniversary, to look for a house and a school for his younger son. He is selling his house in Oyster Bay to move to central London. He likes to garden, shoot and play squash, tennis and golf. He is also a keen rugby watcher and a lifelong supporter of, wait for it, West Ham!

All City customs have to start some time and the Corney & Barrow Golf Croquet League, which was first held in 1995, neatly combines the City's traditional interest in gentlemanly pursuits with just a touch of Eighties brashness to create an image of competitiveness and style which is wholly Nineties.

Two man teams from over 100 City firms will take part in the 1997 tournament, which begins next Tuesday with a champagne launch attended by Count Edouard de Nazele of Veuve Clicquot, together with last year's winners, the Rolling Bulls from Leopold Joseph.

The competition proper starts on Wednesday with a series of round-robin matches at luncheons and evenings on the lawn in Exchange Square at Broadgate in the City. The competition progresses through a knock-out stage leading to the grand final played for the Veuve Clicquot cup on 5 September.

Clifford German

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time and the Corney & Barrow Golf Croquet League, which was first held in 1995, neatly combines the City's traditional interest in gentlemanly pursuits with just a touch of Eighties brashness to create an image of competitiveness and style which is wholly Nineties.

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Clifford German

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Ebadiyla to lift Oaks for the Aga

Racing

GREG WOOD

It was not just the 11 lengths of daylight between Reams Of Verse and her nearest pursuer in the Musidora Stakes at York last month which persuaded most observers that she would live up for the Oaks at Epsom today with an outstanding chance of success. It was also the look on Kieren Fallon's face as he reflected on the performance a few minutes later, and an earlier gallop which he said had excited him more than any piece of work on any horse since his arrival as first jockey to Henry Cecil at Warren Place.

Fallon has seen enough troughs in his career to keep a sense of perspective about easy winners in Classic trials, but he could not hide the rich dose of astonishment and anticipation which Reams Of Verse had administered. Britain's punters soon felt it too, and though Ladbrokes offered 7-4 for the Oaks for the remainder of the day, the filly's price for the Classic quickly shrank to the odds-on at which she will surely start today.

Yet, once the euphoria had subsided, one fact remained which those with a fortune riding on Reams Of Verse might prefer to ignore. Pedigrees of two obscurer as much as they are real, and Reams Of Verse certainly did not appear to be stopping at the end of the Musidora's extended 10 furlongs, but her sire, Nureyev, never raced beyond a mile, and the average distance over which his offspring win (and there are enough of them to make the figure valid) is just 7.6 furlongs. As John Oxx, who takes her on with Ebadiyla, said yesterday: "She's

a worthy favourite and if she gets the trip you have to think she'll win, but on pedigree there must be doubts that she'll stay." Those doubts are serious enough to deter sensible punters from getting involved at odds-on, and the only plus worth pursuing is to sit the race out, or to find an each-way alternative.

The British-trained rivals to Reams Of Verse, including Yashmak her stable-mate, who beat a poor field at Newbury last time, do not have the form or potential to win even a sub-standard Oaks, but Oxx's runner, the first to carry the Aga Khan's colours in a British Classic since Alyisa was disqualified from his arrival as first jockey to Henry Cecil at Warren Place.

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troughs in his career to keep a sense of perspective about easy winners in Classic trials, but he could not hide the rich dose of astonishment and anticipation which Reams Of Verse had administered. Britain's punters soon felt it too, and though Ladbrokes offered 7-4 for the Oaks for the remainder of the day, the filly's price for the Classic quickly shrank to the odds-on at which she will surely start today.

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FIRST SHOW ON THE OAKS

Reams Of Verse C H L 7
Reams Of Verse 44 83 45 46
Yashmak 92 16 92 92
Crown Of Light 101 51 91 103
Ebadiyla 103 103 81 101
Squad 104 104 81 81
Musidora 203 254 261 264
Athena 403 404 404 391
Graze 404 291 291 333
Reams Of Verse 501 651 651 651
Eponine 501 651 651 651
Imperial Scholar 101 200 1 200 1 200 1
Ebadiyla 501 651 651 651

EPSOM
2.10: DANCE TRICK, who looked as if she would appreciate faster ground when beating Ajie Dancer by a short-head in a fair time in a maiden at Newbury on her debut, looks a smart prospect.

2.45: SINGSPIEL, who proved himself the complete package when winning the Dubai World Cup over 1m 2f on dirt at Nad Al Sheba following a win in the mud in Canada and a Japan Cup triumph on firm ground, will be hard to beat. Oscar Schindler may pose most problems.

3.20: GREAT CHILD, beaten just by a length by Out Of Sight in a competitive mile handicap at York recently, has a favourable low draw and could go one better here.

RACING RESULTS

BEVERLEY
2.20: 1. ASEF HEAD (U) Stood 2:1-2. Covets 10-11 fav. 3. Potoles 12-1. 7 fav. Ns. (B) Hanover. Total 2:0-1. 90. Cont. 2:0-1. Total 2:0-1. 90. Cont. 2:0-1. Total 2:0-1. 90. Cont.

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3.20c: 1. MR TENGH (U) Fortune 2:2-2. Covets 10-11 fav. 3. Potoles 12-1. 7 fav. Ns. (B) Hanover. Total 2:0-1. 90. Cont.

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French polish**sport****Swiss on a roll**